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High-Risk Series

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Quick Reference Guide

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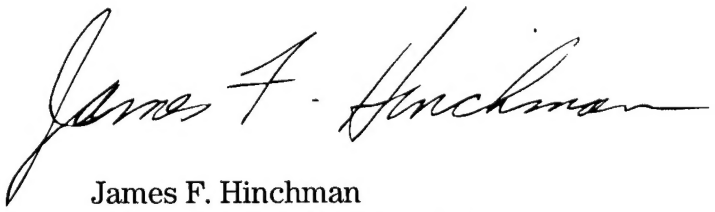
The President of the Senate
The Speaker of the House of Representatives

In 1990, the General Accounting Office began a special effort to review and report on the federal program areas its work identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. This effort, which was supported by the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight, brought a much-needed focus on problems that were costing the government billions of dollars.

In December 1992, GAO issued a series of reports on the fundamental causes of problems in high-risk areas and in a second series in February 1995, it reported on the status of efforts to improve those areas. This, GAO's third series of reports, provides the current status of designated high-risk areas.

This Quick Reference Guide provides summaries of the status of each of the 20 areas we have tracked since our last report series and 5 areas that are newly designated as high-risk. For each area, the Guide outlines the problems, progress, and further actions needed; identifies a key GAO contact person; and provides a list of related GAO products. Nineteen of the 25 high-risk areas are discussed in more detail in 12 separate booklets that are also part of this series.

Copies of this report series are being sent to the President, the congressional leadership, all other Members of the Congress, the Director of the Office of Management and Budget, and the heads of major departments and agencies.



James F. Hinchman
Acting Comptroller General
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Defense Financial Management

The Department of Defense (DOD) needs accurate financial information and appropriate internal controls to effectively manage the Department's vast resources—over $1 trillion in assets, 3 million military and civilian personnel, and a budget of an estimated $250 billion for fiscal year 1997. However, long-standing, serious weaknesses in the Department's financial operations continue not only to severely limit the reliability of DOD's financial information, but also have resulted in wasted resources and undermined the Department's ability to carry out its stewardship responsibilities. No military service or other major DOD component has been able to withstand the scrutiny of an independent financial statement audit. This situation is one of the worst in government and is the product of years of neglect.

The financial management weaknesses that the Department must overcome fall into six areas: (1) the lack of an overall integrated financial management system structure, (2) no reliable means of accumulating actual cost data to account for and manage resources, (3) continuing problems in accurately accounting for billions of dollars in disbursements, (4) the critical need to upgrade its financial management workforce

and organization, (5) breakdowns in rudimentary required financial control procedures, and (6) antiquated bureaucratic practices that underscore the need for progress in reengineering business practices.

The past few years have been marked by DOD's financial management leadership, under the direction of the Department's Chief Financial Officer (CFO), recognizing the importance of tackling the broad range of problems in this area. As a result, the importance of greater financial accountability is now clearer throughout the Department. In laying out his "blueprint" for reforming the Department's financial management, the Secretary took an important first step towards resolving DOD's long-standing problems.

DOD still has a long way to go to meet the challenges of managing its vast and complex operations with the business-like efficiency demanded by the Congress and the American public. The reforms mandated by the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996 serve as important catalysts for

focusing attention on the financial problems facing the Department.

It is now critical that DOD take the next steps in transforming its leaders' candid acknowledgement of deficiencies into comprehensive, realistic corrective actions. It will take a focused, sustained effort if DOD is to fully resolve these challenges. The Department has begun a number of initiatives intended to address its long-standing financial management weaknesses.

Additional information on DOD financial management problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-3).

Key Contact

Lisa G. Jacobson, Director
Defense Financial Audits
Accounting and Information Management Division
202-512-9542

Related GAO Products

Financial Management: DOD Inventory of Financial Management Systems Is Incomplete (GAO/AIMD-97-29, Jan. 31, 1997).

DOD Accounting Systems: Efforts to Improve System for Navy Need Overall Structure (GAO/AIMD-96-99, Sept. 30, 1996).

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, Aug. 16, 1996).

CFO Act Financial Audits: Increased Attention Must Be Given to Preparing Navy's Financial Reports (GAO/AIMD-96-7, Mar. 27, 1996).

Financial Management: Challenges Facing DOD in Meeting the Goals of the Chief Financial Officers Act (GAO/T-AIMD-96-1, Nov. 14, 1995).

Financial Management: Challenges Confronting DOD's Reform Initiatives (GAO/T-AIMD-95-146, May 23, 1995).

Defense Contract Management

Improvement and simplification of the Department of Defense's (DOD) contract payment system is imperative. If DOD does not achieve effective control over its payment process, the Defense Finance and Accounting Service (DFAS) will continue to risk overpaying contractors millions of dollars. Further, failure to reform the payment system perpetuates other financial management and accounting control problems and increases the administrative burden of identifying and correcting erroneous payments and their associated costs. DOD is aware of the seriousness of its payment problems and is taking steps to address them.

With improved contractor cost-estimating systems, DOD could reduce the risk of overpricing and manage contracts more efficiently. Contractors' cost-estimating systems are a critical control for ensuring sound price proposals. Sound price proposals reduce the risk that the government will pay excessive prices, and they permit less government oversight and management attention. DOD has improved its oversight of contractors' cost-estimating systems, and some improvement in contractor systems is indicated. Nevertheless, poor cost-estimating systems

remain an area of concern at some contractors' locations and require continued attention by contractors and government contracting officials.

Maintaining public support for defense programs requires that potential fraud involving defense contractors be identified and dealt with swiftly. DOD has established a voluntary disclosure program to encourage defense contractors to voluntarily disclose potential civil or criminal procurement fraud to the government. However, contractor participation in the program has been relatively small and the dollar recoveries modest. Efforts to improve the administration of the program, including the coordination between DOD and the Department of Justice, may encourage program participation and improve dollar recoveries.

As is the case with many other elements of defense, contract administration and audit resources have been reduced, and further reductions are planned. At the same time, DOD continues to look to additional outsourcing opportunities, and it plans to significantly increase its procurement budgets in the coming years. Both these actions may increase contracting actions and

the need for effective contract administration and audit. As DOD seeks to reengineer and streamline its contracting and acquisition processes, including contract administration and audit, new business process techniques will be key to accomplishing effective and efficient oversight in the future.

Additional information on DOD contract management problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-4).

Key Contact

Louis J. Rodrigues, Director
Defense Acquisitions
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202-512-4841

Related GAO Products

Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix (GAO/T-NSIAD-96-146, Apr. 16, 1996).

DOD Procurement: Use and Administration of DOD's Voluntary Disclosure Program (GAO/NSIAD-96-21, Feb. 6, 1996).

DOD Procurement: Millions in Contract Payment Errors Not Detected and Resolved Promptly (GAO/NSIAD-96-8, Oct. 6, 1995).

High-Risk Series: Defense Contract Management (GAO/HR-95-3, Feb. 1995).

DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem (GAO/NSIAD-94-245, Aug. 5, 1994).

DOD Procurement: Millions in Overpayments Returned by DOD Contractors (GAO/NSIAD-94-106, Mar. 14, 1994).

Defense Inventory Management

The Department of Defense (DOD) uses its secondary inventory—spare and repair parts, clothing, medical supplies, and other items—to support its operating forces. In September 1995, DOD reported that it had a secondary inventory valued at $69.6 billion. Based on DOD data, we estimate that about half of the inventory includes items that are not needed to be on hand to support DOD war reserve or current operating requirements.

In 1992, we reported that DOD had wasted billions of dollars on excess supplies. We reported that the problem resulted because inherent in DOD's culture was the belief that it was better to overbuy items than to manage with just the amount of stock needed. Had DOD used effective inventory management and control techniques and modern commercial inventory management practices, it would have had lower inventory levels and would have avoided the burden and expense of storing excess inventory.

In 1995, we reported that managing DOD's inventory presented challenges that partially stemmed from the downsizing of the military forces. We reported that DOD needed to move aggressively to identify and implement viable commercial practices and to provide managers with modern, automated

accounting and management systems to better control and monitor its inventories.

DOD has clearly had some success in addressing its inventory management problems, but much remains to be done. DOD has implemented, in a limited manner, certain commercial practices such as direct vendor delivery for medical and food items. However, these initiatives address only about 3 percent of the items for which this concept could be used. DOD is in the midst of changing its inventory management culture. Also, it has reduced its inventory since our 1995 high-risk report. However, we believe that much of the reduction was the result of reduced force levels, which reduced overall demands on DOD's logistics systems.

DOD has also made little progress in developing the management tools needed to help solve its long-term inventory management problems. It has not achieved the desired benefits from the Defense Business Operations Fund (DBOF), and the Corporate Information Management (CIM) initiative has not produced the economies and efficiencies anticipated. In December 1996, the Defense Comptroller dissolved DBOF and created separate Army, Navy, Air Force, and Defense-wide working

capital funds. The four funds will continue to operate under the revolving fund concept—using the same policies, procedures, and systems as they did under DBOF.

DOD has also abandoned its initial strategy to deploy a set of integrated systems across all inventory control points and has embarked on a strategy to deploy the systems individually at selected sites without taking the steps necessary to ensure that the effort brings positive results.

As a result of the lack of progress with some of the key initiatives, it has become increasingly difficult for inventory managers to manage DOD's multibillion-dollar inventory supply system efficiently and effectively. Large amounts of unneeded inventory, inadequate inventory oversight, overstated requirements, and slowness to implement modern commercial practices are evidence of the lack of progress.

Unless DOD acts more aggressively, its inventory management problems will continue into the next century.

In the short term, DOD needs to emphasize the efficient operation of its existing

inventory systems. This includes ensuring the accuracy of inventory requirements to preclude the acquisition of unneeded inventory. It also needs to make greater use of proven commercial practices where more immediate savings can be achieved.

In the long-term, DOD must establish goals, objectives and milestones for changing its culture and adopting new management tools and practices. These solutions include (1) setting aggressive milestones for substantially expanding the use of modern commercial practices and (2) providing managers with the tools—critical to managing inventory efficiently—that it had planned to provide through the DBOF and CIM initiatives. DOD must also continue to explore other alternatives such as using business case analysis to identify opportunities for outsourcing logistics functions.

At the same time, continued close congressional oversight is key to helping to ensure that financial resources are not wasted through the acquisition of additional inventories that are not needed and that DOD obtains the tools necessary for efficient and effective inventory management.

Additional information on DOD inventory management problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-5).

Key Contact

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Defense Management
National Security and International Affairs Division
202-512-8412

Related GAO Products

1997 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-96-220, Sept. 18, 1996).

Defense IRM: Critical Risks Facing New Materiel Management Strategy (GAO/AIMD-96-109, Sept. 6, 1996).

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, Aug. 16, 1996).

Inventory Management: Adopting Best Practices Could Enhance Navy Efforts to Achieve Efficiencies and Savings (GAO/NSIAD-96-156, July 12, 1996).

Best Management Practices: Reengineering the Air Force's Logistics System Can Yield Substantial Savings (GAO/NSIAD-96-5, Feb. 21, 1996).

Inventory Management: DOD Can Build on Progress in Using Best Practices to Achieve Substantial Savings (GAO/NSIAD-95-142, Aug. 4, 1995).

Defense Business Operations Fund: Management Issues Challenge Fund Implementation (GAO/NSIAD-95-79, Mar. 1, 1995).

High-Risk Series: Defense Inventory Management (GAO/HR-95-5, Feb. 1995).

Defense Supply: Inventories Contain Nonessential and Excessive Insurance Stocks (GAO/NSIAD-95-1, Jan. 20, 1995).

Defense Weapon Systems Acquisition

The national Defense budget, measured in constant 1997 dollars, has declined from a peak of $415.8 billion in fiscal year 1985 to $269.9 billion in fiscal year 1996—a reduction of about 35 percent. A large part of the reduction was in funding for the development and procurement of new and improved weapon systems. Nevertheless, the Department of Defense (DOD) still spends about $79 billion annually to research, develop, and acquire weapon systems. While DOD's expenditures have produced many of the world's most capable weapon systems, its weapon system acquisition processes have often proved costly and inefficient, if not wasteful.

Despite DOD's past and current efforts to reform its acquisition system, wasteful practices still add billions of dollars to Defense acquisition costs. Many new weapon systems cost more and do less than anticipated, and schedules are often delayed. Moreover, the need for some of these costly weapons, particularly since the collapse of the Soviet Union, is questionable. DOD has perpetuated its history of establishing questionable requirements for weapon systems; projecting unrealistic cost, schedule, and performance estimates; and beginning production before adequate

testing has been completed. These problems have been discussed in more detail in our cross-cutting reports entitled Weapons Acquisition: A Rare Opportunity for Lasting Change (GAO/NSIAD-93-15, Dec. 1992) and Weapons Acquisition: Low-Rate Initial Production Used to Buy Weapon Systems Prematurely (GAO/NSIAD-95-18, Nov. 21, 1994) as well as in our reports on individual programs. (See Related GAO Products.)

DOD's leadership has emphasized its commitment to reforming its system acquisition processes. DOD's goal is to become the world's smartest buyer, continuously reinventing and improving the acquisition process while taking maximum advantage of emerging technologies that enable business process reengineering. In the area of "what to buy," DOD's efforts are focusing on (1) greater reliance on commercial products and processes and (2) more timely infusion of new technology into new or existing systems. In the area of "how to buy," DOD's efforts have been directed at, among other things, increasing teamwork and cooperation, encouraging risk management rather than risk avoidance, reducing reporting requirements, and reducing nonvalue-added layers of review and oversight. In addition, the Congress has

passed a series of legislative reforms for the system acquisition process.

The ultimate effectiveness of DOD's current initiatives to reduce the costs and improve the outcomes of its acquisition processes cannot yet be fully assessed because they are in various stages of implementation. DOD is pursuing a number of positive initiatives that should, over time, improve the cost-effectiveness of its acquisition processes and is reporting some success in terms of cost savings or avoidance and other benefits. However, it may be several years before tangible results can be documented and sustained.

While these initiatives are commendable, DOD continues to (1) generate and support acquisitions of new weapon systems that will not satisfy the most critical weapon requirements at minimal cost and (2) commit more procurement funds to programs than can reasonably be expected to be available in future Defense budgets. The fundamental reforms needed to correct these problems, such as successfully completing testing before beginning production, have not yet been formulated, much less instituted, by DOD and the Congress. However, the likelihood of continuing fiscal constraints

and reduced national security threats provide additional incentives for real progress in changing the structure and dominant culture of DOD's system acquisition processes.

Additional information on Defense weapon systems acquisition problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-6).

Key Contact

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Related GAO Products

Acquisition Reform: Implementation of Title V of the Federal Acquisition Streamlining Act of 1994 (GAO/NSIAD-97-22BR, Oct. 31, 1996).

Combat Air Power: Joint Mission Assessments Needed Before Making Program and Budget Decisions (GAO/NSIAD-96-177, Sept. 20, 1996).

Best Practices: Commercial Quality Assurance Practices Offer Improvements for DOD (GAO/NSIAD-96-162, Aug. 26, 1996).

Navy Aviation: F/A-18E/F Will Provide Marginal Operational Improvement at High Cost (GAO/NSIAD-96-98, June 18, 1996).

Acquisition Reform: Efforts to Reduce the Cost to Manage and Oversee DOD Contracts (GAO/NSIAD-96-106, Apr. 18, 1996).

Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, Apr. 4, 1996).

Comanche Helicopter: Testing Needs to be Completed Prior to Production Decisions (GAO/NSIAD-95-112, May 18, 1995).

Tactical Aircraft: Concurrency in Development and Production of F-22 Aircraft Should Be Reduced (GAO/NSIAD-95-59, Apr. 19, 1995).

High-Risk Series: Defense Weapons Systems Acquisition (GAO/HR-95-4, Feb. 1995).

Electronic Warfare: Most Air Force ALQ-135 Jammers Procured Without Operational Testing (GAO/NSIAD-95-47, Nov. 22, 1994).

Defense Infrastructure

Despite the Department of Defense's (DOD) actions over the last 7 to 10 years to reduce operations and support costs, billions of dollars are wasted annually on inefficient and unneeded activities. DOD has, in recent years, substantially downsized its force structure. However, it has not achieved commensurate reductions in operations and support costs. For fiscal year 1997, DOD estimates that about $146 billion, or almost two-thirds of its budget, will be for operations and support activities. These activities, which DOD generally refers to as its support infrastructure, include maintaining installation facilities, providing nonunit training to the force, providing health care to military personnel and their families, repairing equipment, and buying and managing spare part inventories. DOD is faced with transforming its Cold War operating and support infrastructure in much the same way it has been working to transform its military force structure. Making this transition is a complex, difficult challenge that will affect hundreds of thousands of civilian and military personnel at activities in many states across the nation.

Reducing the cost of excess infrastructure activities is critical to maintaining high levels of military capabilities. Expenditures on

wasteful or inefficient activities divert limited Defense funds from pressing defense needs. For example, DOD has identified net infrastructure savings as a funding source for modernization; however, thus far, anticipated savings have not occurred. As a result, DOD has been unable to shift funds to modernization as planned.

DOD has found that infrastructure reductions are a difficult and painful process because achieving significant cost savings requires up-front investments, the closure of installations, and the elimination of military and civilian jobs. Service parochialism, a cultural resistance to change, and congressional and public concern about the effects on local communities and economies, as well as the impartiality of the decisions, have historically hindered DOD's ability to close or realign bases. DOD has also recognized that opportunities to streamline and reengineer its business practices could result in substantial savings, but it has made limited progress in accomplishing this.

To its credit, DOD has programs to identify potential infrastructure reductions in many areas. However, breaking down cultural resistance to change, overcoming service parochialism, and setting forth a clear

framework for a reduced Defense infrastructure are key to avoiding waste and inefficiency. To do this, the Secretary of Defense and the service Secretaries need to give greater structure to their efforts by developing an overall strategic plan. The plan needs to establish time frames and identify organizations and personnel responsible for accomplishing fiscal and operational goals. This plan needs to be presented to the Congress in much the same way as DOD presented its plan for force structure reductions in the Base Force Plan and the Bottom-Up Review. This will provide a basis for the Congress to oversee DOD's plan for infrastructure reductions and allow the affected parties to see what is going to happen and when. In developing the plan the Department should consider using a variety of means to achieve reductions, including such things as consolidations, privatization, outsourcing, reengineering, and interservicing agreements. It should also consider the need and timing for future base realignment and closure (BRAC) rounds, as suggested by the 1995 BRAC Commission and other groups.

Additional information on Defense infrastructure problems and progress can be

found in a separate report issued as part of this series (GAO/HR-97-7).

Key Contact

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Defense Management
National Security and International Affairs Division
202-512-8412

Related GAO Products

Air Force Depot Maintenance: Privatization-In-Place Plans Are Costly While Excess Capacity Exists (GAO/NSIAD-97-13, Dec. 31, 1996).

Army Depot Maintenance: Privatization Without Further Downsizing Increases Costly Excess Capacity (GAO/NSIAD-96-201, Sept. 18, 1996).

Navy Depot Maintenance: Cost and Savings Issues Related to Privatizing-in-Place at the Louisville, Kentucky, Depot (GAO/NSIAD-96-202, Sept. 18, 1996).

Defense Acquisition Infrastructure: Changes in RDT&E Laboratories and Centers (GAO/NSIAD-96-221BR, Sept. 13, 1996).

Defense Infrastructure: Costs Projected to Increase Between 1997 and 2001 (GAO/NSIAD-96-174, May 31, 1996).

Military Bases: Opportunities for Savings in Installation Support Costs Are Being Missed (GAO/NSIAD-96-108, Apr. 23, 1996).

Military Bases: Closure and Realignment Savings Are Significant, But Not Easily Quantified (GAO/NSIAD-96-67, Apr. 8, 1996).

Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, Apr. 4, 1996).

Defense Transportation: Streamlining of the U.S. Transportation Command Is Needed (GAO/NSIAD-96-60, Feb. 22, 1996).

Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment (GAO/NSIAD-95-133, Apr. 14, 1995).

IRS Financial Management

Our audits of the Internal Revenue Service's (IRS) financial statements have outlined the substantial improvements needed in IRS' accounting and reporting in order to comply fully with the requirements of the Chief Financial Officers (CFO) Act of 1990. The audits for fiscal years 1992 through 1995 have described IRS' difficulties in properly accounting for its reported $1.4 trillion in tax revenues, in total and by reported type of tax; reliably determining the amount of accounts receivable owed for unpaid taxes; regularly reconciling its Fund Balance With Treasury accounts; and either routinely providing support for receipt of the goods and services it purchases or, where supported, accurately recording the purchased item in the proper period.

IRS has made progress in addressing these problems and has developed an action plan, with specific timetables and deliverables, to address the issues our financial statement audits have identified. This is particularly notable in IRS' administrative accounting operations, which track its over $7 billion appropriation to fund IRS' activities. For example, IRS recently reported that it has identified substantially all of the reconciling items for its Fund Balance With Treasury accounts, except for certain amounts IRS has

deemed not to be cost-beneficial to research further. It also has successfully transferred its payroll processing to the Department of Agriculture's National Finance Center and has begun designing both a short-term and a long-term strategy to fix the problems that contribute to its nonpayroll expenses being unsupported or reported in the wrong period.

Further, in the revenue accounting area, IRS has designed an interim approach to capture the detailed support for revenue and accounts receivable until longer-term solutions can be identified and implemented. The issues with IRS' revenue accounting operations are complex, and the remedies needed are multifaceted and encompass organizational, managerial, technological, and procedural improvements. IRS' revenue accounting problems are especially affected and complicated by automated data processing systems that were implemented many years ago and thus not designed to support the financial reporting requirements ushered in by the 1990 CFO Act. Some of the longer-term actions needed to correct the long-standing problems in IRS' revenue accounting operations include

- implementing software, hardware, and procedural changes needed to create reliable subsidiary accounts receivable and revenue records that are fully integrated with the general ledger and
- implementing software changes that allow the detailed taxes reported to be maintained separately from the results of compliance efforts that would not be valid financial reporting transactions in the masterfile, other related revenue accounting feeder systems, and the general ledger.

The requirements of the CFO Act have provided the impetus for ongoing efforts to improve IRS' operations. They led to IRS' top managers having a much better understanding than ever before of IRS' serious accounting and reporting problems, provided information on the magnitude of IRS' tax receivables collection problems, and identified the need for stronger controls over such areas as payroll operations.

IRS has made progress in responding to our recommendations. Over the past 4 years, we have made 59 recommendations to improve IRS' financial management systems and reporting. IRS agreed with these recommendations and has been working to implement them and correct its financial

systems and information problems. IRS has completed action on some of these recommendations and has efforts under way to address the remaining areas. IRS has been directed in the appropriations committees' conference report to submit a report by March 1, 1997, that presents a plan to correct the problems identified in our July 1996 audit report. As part of our audit of IRS' fiscal year 1996 financial statements, which was ongoing when this report was being prepared, we are examining and will report on the additional actions IRS has taken to respond to the recommendations we have made.

IRS' efforts are intended to position itself to have more reliable financial statements for fiscal year 1997 and thereafter. To accomplish this, especially in accounting for revenue and the related accounts receivables, IRS will need to institute longer term solutions involving reprogramming software for IRS' antiquated systems and developing new systems as required.

Follow-through by IRS is essential to ensure that its short-term and long-term plans are carried out and effectively solve financial management problems. While IRS' senior management has resolved to address these

issues, in the past IRS has not always provided the follow-through needed to complete necessary corrective measures. Solving these problems is essential to providing reliable financial information and ensuring taxpayers that their federal tax dollars are properly accounted for in accordance with federal accounting standards. The accuracy of IRS' financial statements is also essential to both IRS and the Congress for (1) ensuring adequate accountability for IRS programs, (2) assessing the impact of tax policies, and (3) measuring IRS' performance and cost effectiveness in carrying out its numerous tax enforcement, customer service, and collection activities.

Additional information on IRS financial management problems and progress can be found in a separate IRS management report issued as part of this series (GAO/HR-97-8).

Key Contact

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202-512-9510

Related GAO Products

IRS Financial Audits: Status of Efforts to Resolve Financial Management Weaknesses (GAO/T-AIMD-96-170, Sept. 19, 1996).

Financial Audit: Examination of IRS' Fiscal Year 1995 Financial Statements (GAO/AIMD-96-101, July 11, 1996).

Financial Audit: Actions Needed to Improve IRS Financial Management (GAO/T-AIMD-96-96, June 6, 1996).

IRS Operations: Significant Challenges in Financial Management and Systems Modernization (GAO/T-AIMD-96-56, Mar. 6, 1996).

Financial Audit: Examination of IRS' Fiscal Year 1994 Financial Statements (GAO/AIMD-95-141, Aug. 4, 1995).

Financial Audit: Examination of IRS' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-120, June 15, 1994).

Financial Audit: Examination of IRS' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-2, June 30, 1993).

IRS Receivables

The Internal Revenue Service (IRS) is the government's primary tax collection agency and routinely collects over a trillion dollars annually. But many taxpayers are either unable or unwilling to pay their taxes when due and, as a result, IRS estimates that its accounts receivable amount to tens of billions of dollars. Unfortunately, IRS' long-term efforts to efficiently and effectively collect the billions of dollars taxpayers owe in delinquent taxes and to prevent taxpayers from becoming delinquent have been seriously hampered, primarily by outdated equipment and processes, incomplete information needed to better target collection efforts, and the absence of a comprehensive strategy and detailed plan that address the systemic nature of the underlying problems.

On the other hand, short-term results in collecting delinquent taxes have shown some promise. In fiscal year 1996, for example, IRS reported the collection of $29.8 billion in delinquent taxes—the most ever by IRS. Furthermore, for the first time since 1989, IRS also reported that its collection employees took in more money than they classified as "currently not collectible." While these results are encouraging, IRS needs to know more about

its inventory of tax assessments and the types of taxpayers who become delinquent each year to develop effective strategies to efficiently target its collection resources and to prevent future delinquencies.

IRS' collection efforts have been hampered by the age of the delinquent tax accounts. Because of the outdated equipment and processes used to match tax returns and related information documents, it can take IRS several years to identify potential delinquencies and then initiate collection actions. In addition, according to IRS, the 10-year statutory collection period generally precludes it from writing off uncollectible receivables until that period has expired. As a result, the receivables inventory includes many relatively old accounts that will never be collected because the taxpayers are deceased or the companies defunct.

IRS has undertaken many initiatives to deal with its accounts receivable problems. These initiatives include correcting errors in the masterfile records of tax receivables, developing more information on the makeup of the inventory of tax debts, developing research systems to identify characteristics of delinquent taxpayers and appropriate collection techniques, attempting telephone

contact earlier in the collection process, speeding up the collection process for repeat delinquents, revising the format of bills sent to delinquent taxpayers, automating many of the processes carried out by collection employees in field offices, and attempting to collect compliance-generated delinquencies earlier. While some of these efforts appear to have had some impact on collections and the tax debt inventory, others are long term in nature, and their effectiveness may not be determined for years. Further, the problems with IRS' data and information systems will continue to hinder its ability to effectively measure the results of these efforts.

The Congress has recently taken actions that could help deal with the collection of delinquent taxes and the prevention of future delinquencies. Legislation requiring more electronic deposits of employment taxes, expanding voluntary withholding, and authorizing IRS to test the use of private debt collectors could help reduce posting errors, prevent taxpayers from becoming delinquent, and collect more money. Other actions in areas such as tax delinquencies related to independent contractors—a group of taxpayers that is proportionately more delinquent than other groups of

taxpayers—could, if adopted, also help IRS deal with its collection problems.

Although the results cannot generally be quantified or traced back to specific actions or improvements, some of IRS' efforts reportedly have resulted in increased collections and reduced delinquencies in the short term. For example, during fiscal year 1996, IRS revised the bills sent to taxpayers to make them clearer and easier to understand, and reported that collections from the billing process increased from $11.8 billion in fiscal year 1995 to $14.7 billion in fiscal year 1996. IRS has also placed more emphasis on collecting examination assessments at the close of an audit, and preliminary results have been favorable.

Until fiscal year 1996, IRS' inventory of tax assessments increased at a faster pace than collections. For example, during the period 1991-1996, the inventory increased an average of 16 percent each year, from $104 billion at the end of fiscal year 1991 to about $216 billion at the end of fiscal year 1996. Reported collection of delinquent taxes, however, averaged only a 4.5-percent increase, from $24.3 billion to $29.8 billion, during that same period.

We recognize that the growth in the gross inventory is not the best measure of IRS' performance because it includes penalty and interest charges that continue to accrue on delinquent accounts, potentially invalid accounts, and accounts that are truly uncollectible; however, better figures are not available. IRS is working toward better defining its receivables inventory. For its fiscal year 1995 financial statements, IRS developed a methodology to differentiate financial accounts receivable from the amounts it has assessed for compliance purposes. While the methodology appeared sound, mistakes in performing the analysis and errors in the underlying data made the sample results unreliable.

A number of IRS initiatives hold some potential for future improvements in both collections and compliance. For example, IRS is developing a number of research and evaluative tools that are intended to determine the most efficient and effective way to handle cases by identifying those taxpayer characteristics that could predict the possible outcome of the cases. In addition, research databases are being constructed that are intended to allow for identification of particular groups, and a research structure has been developed to

allow for studies dealing with different groups of taxpayers. However, the completion dates for full development of the databases are currently unknown due to the uncertainty of funding for IRS' Tax Systems Modernization program. Even if funding was assured, it would still take a number of years to identify the root causes of delinquencies and to develop, test, and implement courses of action to deal with the causes. Once the analyses and planning are completed, it will still be some time before full results of the new initiatives are realized.

Nevertheless, the recent increase in reported collections is a good sign. As previously mentioned, the $29.8 billion reported in fiscal year 1996 is the most ever collected. This sum represents a 19-percent increase over the $25.1 billion reported in fiscal year 1995 and a 17-percent increase over the $25.5 billion reported in fiscal year 1990—the previous best year. However, as we said earlier, IRS does not have the data to determine which actions or improvements generate changes in program performance such as this.

Correcting the problems and improving collections will require long-term and continuous efforts. To ensure that these

efforts are on the right track, IRS needs a comprehensive strategy that involves all aspects of IRS' operations. As part of this strategy, IRS needs to set priorities; modernize outdated equipment and processes; and establish goals, timetables, and a system to measure progress.

Additional information on IRS receivables problems and progress can be found in a separate IRS management report issued as part of this series (GAO/HR-97-8).

Key Contact

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Related GAO Products

IRS Tax Collection Reengineering (GAO/GGD-96-161R, Sept. 24, 1996).

Tax Administration: Tax Compliance of Nonwage Earners (GAO/GGD-96-165, Aug. 28, 1996).

Financial Audit: Examination of IRS' Fiscal Year 1995 Financial Statements (GAO/AIMD-96-101, July 11, 1996).

Tax Administration: IRS Tax Debt Collection Practices (GAO/T-GGD-96-112, Apr. 25, 1996).

Status of Tax Systems Modernization, Tax Delinquencies, and the Potential for Return-Free Filing (GAO/T-GGD/AIMD-96-88, Mar. 14, 1996).

Financial Audit: Examination of IRS' Fiscal Year 1994 Financial Statements (GAO/AIMD-95-141, Aug. 4, 1995).

Taxpayer Compliance: Reducing the Income Tax Gap (GAO/T-GGD-95-176, June 6, 1995).

Tax Administration: Administrative Improvements Possible in IRS' Installment Agreement Program (GAO/GGD-95-137, May 2, 1995).

High-Risk Series: Internal Revenue Service Receivables (GAO/HR-95-6, Feb. 1995).

Filing Fraud

When we first identified filing fraud as a high-risk area in February 1995, the amount of filing fraud being detected by the Internal Revenue Service (IRS) was on an upward spiral. From 1991 to 1994, the number of fraudulent returns that IRS detected rose from 11,168 to 77,781, and the total amount of fraudulent refunds detected rose from $42.9 million to $160.5 million. In 1995, after being urged to take immediate action by us, the Congress, and a Treasury task force, IRS introduced new controls and expanded existing controls in an attempt to reduce its exposure to filing fraud. Those controls were directed toward either (1) deterring the filing of fraudulent returns or (2) identifying questionable returns after they have been filed.

To deter the filing of fraudulent returns, IRS took several steps that were focused on electronic filers. As a result of these steps, IRS (1) expanded the number of upfront filters in the electronic filing system designed to screen electronic submissions for problems, such as missing or incorrect Social Security Numbers (SSN), to prevent returns with those problems from being filed electronically and (2) strengthened the process for checking the suitability of persons applying to participate in the

electronic filing program as return preparers or transmitters by requiring fingerprint and credit checks.

To better identify fraudulent returns once they have been filed, IRS placed an increased emphasis in 1995 on validating SSNs on filed paper returns and delayed any related refunds to allow time to do those validations and to check for possible fraud. IRS also improved its Questionable Refund Program by (1) revising the computerized formulas used to score all tax returns as to their fraud potential and (2) upgrading the Electronic Fraud Detection System (EFDS) to give staff better research capabilities.

IRS' efforts produced some positive results. For example, the number of SSN problems identified by the electronic filing filters increased from about 1 million in 1994 to about 4.1 million in 1995. In addition, about 350 persons who applied to participate in the electronic filing program for 1995 were rejected because they failed the new fingerprint and credit checks. IRS' efforts to validate SSNs on paper returns produced over $800 million in reduced refunds or additional taxes. Unfortunately, IRS identified many more SSN problems than it was able to deal

with and released about 2 million refunds without resolving the problems.

Despite the generally positive results, there is insufficient information available to determine which of IRS' actions have had a significant impact on either detecting or deterring filing fraud. IRS conducted some studies in 1995 and 1996 that may shed some light on the effects of its changes and upgrades, but IRS has not released the results of these studies.

The number of fraudulent returns identified by IRS has declined recently, from 77,781 fraudulent returns involving refunds of $160.5 million in 1994 to 62,309 fraudulent returns with refunds of $131.7 million in 1995. That downward trend continued in 1996, at an even more significant pace. During the first 9 months of 1996, IRS reported detecting 20,521 fraudulent returns involving refunds of $55.4 million, compared with 59,241 returns totaling $124.8 million in the first 9 months of 1995. There is insufficient information available to determine whether the decline was the result of staff reductions, changes in the program's operating and reporting procedures, or a general decline in the incidence of fraud.

IRS' efforts to control filing fraud are also constrained by the relatively short time available, after a return is filed and before any refund is issued, in which to identify a questionable return. Therefore, it is critically important for IRS to (1) optimize the controls, such as upfront filters, that are intended to prevent the filing of fraudulent returns and (2) maximize the effectiveness of available staff. Modernization is the key to achieving these objectives, and electronic filing is the cornerstone of that modernization.

As discussed previously, one of the benefits of electronic filing is the ability to build controls into the system, in the form of filters, that prevent returns with certain problems (such as incorrect SSNs) from being filed electronically. IRS cannot identify those kinds of problems on paper returns until after the returns are filed and, as happened in 1995, is limited in the number of cases it can pursue by the number of staff available. One solution to this dilemma is to increase the percentage of returns filed electronically. IRS' business vision calls for increasing the number of electronic returns to 80 million by 2001. However, our analysis of recent filing trends indicated that only about 33 million returns are expected to be filed electronically by 2001. To achieve its goal,

IRS must first identify those groups of taxpayers who offer the greatest opportunity to reduce IRS' paper-processing workload and operating costs if they were to file electronically. IRS must then develop strategies that focus its resources on eliminating or lessening impediments that inhibit those groups from participating in the program. As of early January 1997, IRS was finalizing its electronic filing strategy.

EFDS enables IRS to use its staff more effectively by automating a process that had been labor and paper intensive and by enhancing the staff's research and query capabilities. To date, EFDS has been used primarily on electronic returns, which accounted for only about 13 percent of all individual income tax returns filed in 1996. IRS had planned to expand EFDS to all paper returns, but it is unclear how those plans will be affected by IRS' recent decisions to terminate its major paper processing modernization project (the Document Processing System) and to consider other options for processing paper returns.

Additional information regarding filing fraud problems and progress can be found in a separate IRS management report issued as part of this series (GAO/HR-97-8).

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Related GAO Products

Earned Income Credit: IRS' 1995 Controls Stopped Some Noncompliance, But Not Without Problems (GAO/GGD-96-172, Sept. 18, 1996).

IRS Efforts to Control Fraud (GAO/GGD-96-96R, Mar. 25, 1996).

The 1995 Tax Filing Season: IRS Performance Indicators Provide Incomplete Information About Some Problems (GAO/GGD-96-48, Dec. 29, 1995).

Tax Administration: Electronic Filing Falling Short of Expectations (GAO/GGD-96-12, Oct. 31, 1995).

Tax Administration: Continuing Problems Affect Otherwise Successful 1994 Filing Season (GAO/GGD-95-5, Oct. 7, 1994).

Tax Administration: Electronic Filing Fraud (GAO/T-GGD-94-89, Feb. 10, 1994).

Tax Administration: Increased Fraud and Poor Taxpayer Access to IRS Cloud 1993 Filing Season (GAO/GGD-94-65, Dec. 22, 1993).

Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27, Dec. 30, 1992).

IRS' Tax Systems Modernization

Over the last decade, the Internal Revenue Service (IRS) has been attempting to overhaul its timeworn, paper-intensive approach to tax return processing. In 1995, we identified serious management and technical weaknesses in the modernization program that jeopardize its successful completion, recommended many actions to fix the problems, and added IRS' modernization to our high-risk list. Since then, IRS and Treasury have together taken several steps to implement our recommendations, but much remains to be done. At stake is the over $3 billion that IRS has spent or obligated on this modernization since 1986, as well as any additional funds that IRS plans to spend on modernization.

In July 1995, we reported that IRS (1) did not have a comprehensive business strategy to cost-effectively reduce paper tax return filings and (2) had not yet fully developed and put in place the requisite management, software development, and technical infrastructure necessary to successfully implement its ambitious, world-class modernization. We also reported that IRS lacked an overall systems architecture, or blueprint, to guide the modernization's development and evolution.

At that time, we made over a dozen recommendations to the IRS Commissioner to address these weaknesses. Collectively, the recommendations called for IRS to (1) formulate a comprehensive business strategy for maximizing electronic filings, (2) improve its strategic information management by implementing a process for selecting, prioritizing, controlling, and evaluating the progress and performance of all major information systems and investments, (3) implement disciplined, consistent procedures for software requirements management, quality assurance, configuration management, and project planning and tracking, and (4) complete and enforce an integrated systems architecture and security and data architectures. IRS agreed to implement our recommendations.

In May 1996, Treasury reported to the House and Senate Appropriations Committees on steps under way and planned to exert greater management oversight over IRS' modernization efforts.[1] For example, it established a Modernization Management Board as the primary review and decision-making body for modernization and

[1]Report to House and Senate Appropriations Committees: Progress Report on IRS's Management and Implementation of Tax Systems Modernization, Department of the Treasury, May 6, 1996.

for policy and strategic direction. In addition, Treasury scaled back the overall size of the modernization by approximately $2 billion and is working with IRS to obtain additional contractor help to accomplish the modernization.

Pursuant to congressional direction, we assessed IRS' actions to correct its management and technical weaknesses, as delineated in Treasury's report on tax systems modernization. We reported in June and September 1996 that IRS had initiated many activities to improve its modernization efforts, but had not yet fully implemented any of our recommendations. Consequently, in order to minimize the risk attached to continued investment in its systems modernization, we suggested to the Congress that it consider limiting modernization funding exclusively to cost-effective efforts that (1) support ongoing operations and maintenance, (2) correct IRS' pervasive management and technical weaknesses, (3) are small, represent low technical risk, and can be delivered quickly, and (4) involve deploying already developed and fully tested systems that have proven business value and are not premature given the lack of a completed architecture.

To help oversee IRS' modernization, the Congress in the fiscal year 1997 Omnibus Consolidated Appropriations Act[2] directed IRS to (1) submit by December 1, 1996, a schedule for transferring a majority of its modernization development and deployment to contractors by July 31, 1997, and (2) establish a schedule by February 1, 1997, for implementing our recommendations by October 1, 1997. In its conference report on the act, the Congress directed the Secretary of the Treasury to (1) provide quarterly reports on the status of IRS' corrective actions and modernization spending[3] and (2) submit by May 15, 1997, a technical architecture for the modernization that has been approved by Treasury's Modernization Management Board. Additionally, the Board was directed to prepare a request for proposals by July 31, 1997, to acquire a prime contractor to manage modernization deployment and implementation.

IRS has continued to take steps to address our recommendations and respond to congressional direction. For example, IRS

[2]Public Law 104-208, September 30, 1996.

[3]H.R. Report No. 863, 104th Cong., 2d sess. (1996). Congress also included the requirement that Treasury provide a milestone schedule for developing and implementing all modernization projects in Treasury's fiscal year 1996 appropriations act (Public Law 104-52, Nov. 19, 1995).

hired a new Chief Information Officer. It also created an investment review board to select, control, and evaluate its information technology investments. Thus far, the board has reevaluated and terminated selected major modernization development projects, such as the Document Processing System.

Additionally, IRS (1) provided a November 26, 1996, report to the Congress that set forth IRS' strategic plan and schedule for shifting modernization development and deployment to contractors, (2) is finalizing a comprehensive strategy to maximize electronic filing that is scheduled for completion in early 1997, and (3) is updating its system development life cycle methodology and working across various IRS organizations to define disciplined processes for software requirements management, quality assurance, configuration management, and project planning and tracking. Additionally, IRS is developing a technical architecture for the modernization and plans to provide this to the Congress by May 15, 1997. Further, IRS is preparing a schedule for implementing our recommendations and plans to provide it to the Congress in February 1997.

While we recognize IRS' and Treasury's actions to address these problems, we remain concerned. Much remains to be done to fully implement essential improvements. Increasing the use of contractors, for example, will not automatically increase the likelihood of successful modernization because IRS does not have the technical capability needed to manage all of its current contractors. As a case in point, IRS' Cyberfile—a system development effort led by contractors to enable taxpayers to personally prepare and file their tax returns electronically—exhibited many undisciplined software acquisition practices as well as inadequate financial and management controls. Eventually, IRS canceled the Cyberfile project after spending over $17 million and without fielding any of the system's promised capabilities. Therefore, if IRS is to use additional contractors effectively, it will have to first strengthen and improve its ability to manage those contractors.

In addition, IRS needs to continue to make concerted, sustained efforts to fully implement our recommendations and respond effectively to the requirements outlined by the Congress. It will take both management commitment and technical

discipline for IRS to do this effectively. Accordingly, we plan to continue assessing IRS' progress in its critical endeavor to modernize.

Additional information on tax systems modernization problems and progress can be found in separate IRS management and information management and technology reports issued as part of this series (GAO/HR-97-8 and GAO/HR-97-9, respectively).

Key Contact

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Related GAO Products

Tax Systems Modernization: Actions Underway But Management and Technical Weaknesses Not Yet Corrected (GAO/T-AIMD-96-165, Sept. 10, 1996).

IRS Operations: Critical Need to Continue Improving Core Business Practices (GAO/T-AIMD/GGD-96-188, Sept. 10, 1996).

Internal Revenue Service: Business Operations Need Continued Improvement (GAO/AIMD/GGD-96-152, Sept. 9, 1996).

Tax Systems Modernization: Cyberfile Project Was Poorly Planned and Managed (GAO/AIMD-96-140, Aug. 26, 1996).

Tax Systems Modernization: Actions Underway But IRS Has Not Yet Corrected Management and Technical Weaknesses (GAO/AIMD-96-106, June 7, 1996).

Tax Systems Modernization: Management and Technical Weaknesses Must Be Corrected If Modernization Is To Succeed (GAO/AIMD-95-156, July 26, 1995).

IRS Automation: Controlling Electronic Filing Fraud and Improper Access to Taxpayer Data (GAO/T-AIMD/GGD-94-183, July 19, 1994).

Customs Service Financial Management

In 1991, we added the U.S. Customs Service to our high-risk list because it had major weaknesses in its management and organizational structure that diminished its ability to detect trade violations on imported cargo; collect applicable duties, taxes, fees, and penalties; control financial resources; and report on financial operations. In February 1995, we reported that Customs had taken several actions to address these problems, including aggressively pursuing delinquent receivables and embarking on an agencywide reorganization plan. We also reported in 1995 that such actions should reduce Customs' risks in the general management arena but that additional efforts were still needed in the financial management area. As such, we reported that the scope of our future high-risk work at Customs would focus on its financial management problems.

Since our 1995 report, Customs has continued to take actions to address these financial management problems. For example, during fiscal year 1995, Customs statistically sampled compliance of commercial importations through ports of entry to better focus enforcement efforts and to project and report lost duties, taxes, and fees due to noncompliance. It also developed

a methodology to estimate and disclose the liability for future claims for drawback payments[1] and other refunds. In addition, Customs reorganized its Office of Finance and established financial advisor positions in key organizational units to more effectively meet financial management responsibilities. Further, Customs has taken meaningful steps toward correcting its computer access problems.

While these actions have resulted in progress, Customs still has not fully corrected significant weaknesses in its financial management and internal control systems which have diminished Customs' ability to reasonably ensure that

- duties, taxes, and fees on imports would be properly assessed and collected and refunds of such amounts would be valid;
- sensitive data maintained in its automated systems, such as import inspection criteria and law enforcement data, were adequately protected from unauthorized access and modification; and
- its core financial systems capture all activities that occurred during the year and

[1]Drawback payments are refunds of duties and taxes paid on imported goods that are subsequently exported or destroyed.

provide reliable information for management to use in controlling operations.

For instance, in June 1994[2] we reported that Customs did not have a reliable means of measuring overall compliance with trade laws, including those related to the importation of goods by way of ports of entry, in-bond shipments, foreign trade zones, and bonded warehouses. As previously stated, Customs conducted a comprehensive compliance measurement program for goods imported at ports of entry. However, it still needs to fully develop and implement such programs for the other areas noted above. In April 1996, the Treasury Office of Inspector General (OIG) reported that until Customs fully implements such programs, it will continue to lack adequate assurance that all revenue due is collected and compliance with trade laws is achieved.

In June 1994, we also reported that Customs could not reliably detect and prevent duplicate and excessive drawback payments and lacked integrated core financial systems. In April 1996, the OIG reaffirmed that weaknesses still existed in these areas.

[2]Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994).

Over the past several years, we and the OIG have made numerous recommendations to Customs to address its financial management problems and have assisted Customs in developing and implementing corrective actions. Some of these actions can be implemented relatively quickly, while other improvements will take years. While we believe that Customs' planned improvement efforts are appropriately focused, it is important that Customs' top and mid-level management provide the continuing support needed to ensure that these important actions are properly implemented and that related problems do not recur.

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Related GAO Products

Customs Service Modernization: Strategic Information Management Must Be Improved for National Automation Program to Succeed (GAO/AIMD-96-57, May 9, 1996).

High-Risk Series: Quick Reference Guide (GAO/HR-95-2, Feb. 1995).

Asset Forfeiture Programs

Federal asset forfeiture programs at the U.S. Customs Service and the Justice Department (administered by the U.S. Marshals Service) were part of our original high-risk list in 1990 because the programs—with inventories valued at about $2 billion in 1995—did not adequately focus on managing the items seized. In December 1992, we reported that the existence of major operational problems, relating to the management and disposition of seized and forfeited property, had been identified and that corrective actions were being initiated. In our February 1995 high-risk report, we reported that although much had been accomplished and some management and systems changes had improved program operations, some significant problems remained with seized property management.

Specifically, the 1995 high-risk report noted that our fiscal years 1992 and 1993 financial statement audits of Customs revealed serious weaknesses in key internal controls and systems that affected Customs' ability to control, manage, and report the results of its seizure efforts, including accountability and stewardship over property seized.[1] As a

[1]The Congress established the Department of the Treasury Forfeiture Fund in October 1992 to supersede the Customs Fund. Customs is responsible for managing property seized by Treasury law enforcement agencies.

result, as we reported, tons of illegal drugs and millions of dollars of currency and other property have been vulnerable to theft and misappropriation.[2] We also reported that the Marshals Service lacked effective oversight of real property management contracts and was not disposing of forfeited property expeditiously, allowing property to deteriorate with a resulting loss of revenue.

Since the 1995 report, Customs has initiated several actions to address these problems, including continuing to upgrade existing security at storage facilities and developing a new seized-property inventory system, which Customs anticipates will be fully implemented in fiscal year 1997. This new system is intended to provide improved controls and audit trails. While progress has been made, Treasury and Justice still have not fully corrected their seized property and internal control weaknesses. For instance, in February 1996, the Treasury Office of Inspector General (OIG) reported that significant errors in recorded quantities were identified during Customs' 1995 fiscal year-end physical inventory, including (1) seized property items on hand but not recorded in

[2]Seized property includes illegal drugs which have no resale value to the federal government. These items are subject to forfeiture and are typically held by the seizing agency until they are approved for destruction.

the tracking system and (2) seized property items recorded in the tracking system but not on hand. It also reported instances where weights of seized narcotics on hand were less than the recorded weights. In addition, the Treasury OIG reported that Customs' seized property tracking system lacked an audit trail of changes made to quantities, values, and status of seizures. The OIG stated that, as a result, it was possible for users to make changes to the data to disguise a loss or theft of seized property, without a record of who made the change. It will take time to determine whether the new seized-property inventory system will prevent these types of problems.

In June 1996, we reported on internal control weaknesses over disbursements and transfers made during the period 1993-1995 from the Seized Assets Deposit Fund at one of the largest Marshals Service districts, the Central District of California. Weaknesses included disbursements and transfers that were not properly authorized or were authorized after the transaction occurred, and a lack of adequate segregation of duties over the disbursement process. We also reported on inadequate management of seized real property, including instances where property deteriorated because of

inadequate maintenance and mortgages were paid late. Because of these property management problems, the government has incurred unnecessary losses. For example, the roof of an 18-unit apartment building seized by the government in 1991 suffered serious maintenance problems while in the Marshals Service's possession, thereby exposing the government to potential liabilities to tenants. Three years after the seizure, the property was turned over to the lienholder at a loss to the federal government of approximately $105,000. The Marshals Service is in the process of taking action to enhance oversight of seized assets and to improve time frames for property disposition.

Legislation enacted in 1988 required Justice and Customs to develop a plan to consolidate postseizure administration of certain properties.[3] In June 1991, we recommended that Justice and Customs consolidate the postseizure management and disposition of all noncash seized properties. Our limited review at that time indicated that by doing so program administration costs could be reduced 11 percent annually. In addition, consolidation would likely result in

[3]The Anti-Drug Abuse Act of 1988, P.L. 100-690, 21 U.S.C. 887 (1988).

lower contractor costs due to economies of scale. In our February 1995 high-risk report, we reported that although a small scale pilot project for consolidation was in effect from October 1992 through September 1993, Justice and Treasury had not made significant progress towards consolidation of property management functions. In November 1994, the Marshals Service reported the costs and proceeds associated with the assets in the pilot project. However, the report did not contain a comparison of what costs would have been had the assets not been consolidated. Hence, there was no way to determine the effectiveness of the pilot project from the information provided.

The House Appropriations Committee stated in a July 19, 1995, report that "the consolidation of asset management and disposition functions of Justice and Treasury could address duplication and provide cost savings to the management and disposal process." The report added that the Committee expected Justice to review the feasibility of consolidating contracts with vendors for both the Marshals Service and Treasury agencies.[4] However, no such review had been initiated as of October 1996.

[4]Departments of Commerce, Justice, and State, The Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 1996, H.R. Rep. No. 104-196, 104th Cong., 1st Sess. 20 (1995).

Justice and Treasury officials indicated that there were no plans for consolidation of asset management and disposition functions.

According to Justice and Treasury, legislation that established a separate Treasury Forfeiture Fund in 1992[5] complicated the potential for consolidation. Prior to the creation of the Treasury Fund, three Treasury agencies participated in Justice's asset forfeiture program, while Customs maintained its own fund. Since the creation of the Treasury Fund, all Treasury bureaus have joined Customs in establishing a separate Treasury property management and disposal program. Possible duplication of resources within the two forfeiture funds and programs is of particular interest in light of budget constraints. Thus, we continue to believe that consolidation of asset management and disposition functions makes sense and that the existence of the Treasury Fund does not negate the potential benefits of consolidation.

In summary, Justice and Treasury have made many improvements to their asset forfeiture programs over the years. However, significant enhancements to internal

[5]Treasury Forfeiture Fund Act of 1992, P. L. No. 102-393, 31 U.S.C. 9703 (1992).

controls and property management are still needed in order to effectively reduce the vulnerability to theft and misappropriation of seized property, including tons of illegal drugs and millions of dollars of cash and real property. In addition, Justice and Treasury should aggressively pursue options for efficiency gains through consolidation. We will continue to monitor Justice's and Treasury's progress in addressing these issues.

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Related GAO Products

Pre-seizure Planning (GAO/GGD-97-19R, Nov. 20, 1996).

Review of SADF Disbursements (GAO/AIMD-96-114R, June 26, 1996).

Asset Forfeiture: Historical Perspective on Asset Forfeiture Issues (GAO/T-GGD-96-40, Mar. 19, 1996).

High-Risk Series: Asset Forfeiture Programs (GAO/HR-95-7, Feb. 1995).

FAA's Air Traffic Control Modernization

Faced with rapidly growing air traffic volumes and aging air traffic control equipment, the Federal Aviation Administration (FAA) in 1981 initiated an ambitious air traffic control (ATC) modernization program. This effort, which is expected to cost $34 billion through fiscal year 2003, mostly involves investments in a multitude of software-intensive computer systems.

Over the past 15 years, the modernization program has experienced cost overruns, schedule delays, and performance shortfalls of large proportions—particularly in the $7.6 billion former centerpiece of the modernization known as the Advanced Automation System, which FAA restructured in 1994. The acquisition of that system failed because FAA did not recognize the technical complexity of the effort, realistically estimate the resources required, adequately oversee its contractors' activities, or effectively control system requirements. With $11 billion planned to be spent on the ATC program from fiscal years 1998 through 2003, and billions more surely to follow, it is critical that FAA overcome the weaknesses that threaten the effort.

FAA has made progress in acquiring an interim replacement for its outage-plagued system that processes data into displayable images on controllers' screens. Although key acquisition milestones, events, and risks remain, FAA is currently on track to deliver promised capabilities ahead of schedule and within budget. Further, when we recommended that two risks associated with system testing—contention for human test resources and test baseline configuration change control—be formally managed, FAA officials agreed to do so.

In spite of this progress, FAA still faces formidable challenges. For example, the many systems comprising the modernization effort have long proceeded without a complete systems architecture, or overall blueprint, to guide development and evolution. The result has been unnecessarily high spending to buy, integrate, and maintain hardware and software. Also exacerbating the modernization's problems is unreliable cost information—both future estimates of costs and accumulations of actual costs. The lack of adequate cost estimating processes and cost accounting practices needed to measure actual cost performance against cost estimates leaves FAA at risk of making

ill-informed decisions on critical multimillion, even billion, dollar ATC systems.

Additionally, FAA still needs to address problems in its organizational culture, which does not reflect a strong enough commitment to mission focus, accountability, coordination, and adaptability. Without strong leadership to promote the desired organizational behavior, the modernization effort's problems will be difficult to overcome.

To further pinpoint the root causes of FAA's modernization problems, we have one review underway to determine whether FAA's software acquisition capability is sufficiently mature to successfully modernize the highly complex, real-time ATC system.

Additional information on air traffic control modernization problems and progress can be found in a separate information management and technology report issued as part of this series (GAO/HR-97-9).

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Related GAO Products

Air Traffic Control: Complete and Enforced Architecture Needed for FAA Systems Modernization (GAO/AIMD-97-30, Feb. 3, 1997).

Air Traffic Control: Improved Cost Information Needed to Make Billion Dollar Modernization Investment Decisions (GAO/AIMD-97-20, Jan. 22, 1997).

Air Traffic Control: Good Progress on Interim Replacement for Outage-Plagued System, But Risks Can Be Further Reduced (GAO/AIMD-97-2, Oct. 17, 1996).

Aviation Acquisition: A Comprehensive Strategy Is Needed for Cultural Change at FAA (GAO/RCED-96-159, Aug. 22, 1996).

Air Traffic Control: Status of FAA's Modernization Program (GAO/RCED-95-175FS, May 26, 1995).

Advanced Automation System: Implications of Problems and Recent Changes (GAO/T-RCED-94-188, Apr. 13, 1994).

Defense's Corporate Information Management Initiative

The Department of Defense's Corporate Information Management (CIM) initiative, started in 1989, was expected to save billions of dollars by streamlining operations and implementing standard information systems supporting such important business areas as supply distribution, materiel management, personnel, finance, and transportation. However, 8 years after beginning CIM, and after spending about $20 billion, Defense's savings goal has not been met because the Department has not yet implemented sound management practices.

We have made numerous recommendations for improving the Department's management of CIM, including (1) linking system modernization projects more strongly to business process improvement efforts, (2) establishing plans, performance measures, and clearly defined roles and responsibilities for implementing CIM, (3) improving controls over information technology investments, and (4) not initiating system improvement projects without sound economic and technical analyses.

But Defense has yet to successfully implement these recommendations. Instead, it continues to spend billions of dollars on

system migration projects with little sound analytical justification.[1] Specifically, Defense is making system migration decisions without (1) appropriately analyzing costs, benefits, and technical risks, (2) establishing realistic project schedules, or (3) considering how process improvements could affect technology investments. Further, in some cases, Defense has denied its own decisionmakers the opportunity to evaluate the progress of technology investments over time by forgoing its established oversight process.

Not surprisingly, Defense's major technology investments have yielded low returns in terms of reducing operational costs. Nevertheless, the Department estimates that it will spend more than an additional $11 billion on system migration projects between now and the year 2000. As part of its Clinger-Cohen Act implementation efforts, the Department is establishing a framework for better managing this investment. However, these actions are just beginning.

We have ongoing and planned work—including reviews of the Department's

[1]A migration system is an automated information system which replaces several systems that perform similar functions.

systems modernization strategy and investment controls—aimed at helping Defense managers make better business decisions based on an accurate picture of the costs of technology investments, their related benefits, and an appreciation for how they fit into the Department's long-term and short-term goals.

Additional information on Defense's Corporate Information Management initiative problems and progress can be found in a separate information management and technology report issued as part of this series (GAO/HR-97-9).

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Related GAO Products

Defense IRM: Strategy Needed for Logistics Information Technology Improvement Efforts (GAO/AIMD-97-6, Nov. 14, 1996).

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Defense Management: Stronger Support Needed for Corporate Information Management Initiative to Succeed (GAO/AIMD/NSIAD-94-101, Apr. 12, 1994).

National Weather Service's Modernization

Promising better weather forecasts and downsized operations, the National Weather Service (NWS) has been acquiring new observing systems—such as radars, satellites, ground-based sensors, and powerful forecaster workstations—at a combined cost of about $4.5 billion. NWS has found that the new radars and satellites have improved forecasts and warnings but acknowledges that key problems confront the new systems.

While the development and deployment of the observing systems associated with NWS' modernization are nearing completion, unresolved issues still remain concerning the observing systems' operational effectiveness and efficient maintenance, such as performance problems with the new radars and ground-based sensors. We recommended that NWS correct shortfalls in radar performance and define and prioritize all ground-based sensor corrections needed to meet user needs. NWS addressed some of our concerns, but others remain.

We also recently reported that NWS has not managed this massive investment through sound decisionmaking processes. For instance, NWS lacks a means by which to ensure that systems provide promised

returns on investments. Also, NWS has not demonstrated that all proposed capabilities will result in mission improvements, thereby increasing the risk that spending will be wasted on unneeded system capabilities. For example, the forecaster workstations that will integrate observing systems' data and support forecaster decisionmaking are far from providing all promised capabilities.

In 1996, we made several recommendations that, if implemented, will strengthen NWS' ability to manage the acquisition of these workstations. Specifically, NWS should

- validate all workstation requirements on the basis of mission impact,
- improve its process to test software,
- establish a software quality assurance program, and
- obtain an independent cost assessment since NWS does not have reliable project cost information.

As we reported in our 1995 high-risk series, the modernization and evolution of this major systems initiative has long begged for a guiding systems architecture. NWS has acknowledged that this technical blueprint is needed and is currently developing one to address our March 1994 recommendation to

do so. In the meantime, however, NWS will continue to incur higher system development and maintenance costs and reduced performance.

Additional information on NWS' modernization problems and progress can be found in a separate information management and technology report issued as part of this series (GAO/HR-97-9).

Key Contact

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Related GAO Products

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Weather Forecasting: NWS Has Not Demonstrated That New Processing System Will Improve Mission Effectiveness (GAO/AIMD-96-29, Feb. 29, 1996).

Weather Forecasting: Radar Availability Requirements Not Being Met (GAO/AIMD-95-132, May 31, 1995).

Weather Forecasting: Unmet Needs and Unknown Costs Warrant Reassessment of Observing System Plans (GAO/AIMD-95-81, Apr. 21, 1995).

Weather Forecasting: Improvements Needed in Laboratory Software Development Processes (GAO/AIMD-95-24, Dec. 14, 1994).

Weather Forecasting: Systems Architecture Needed for National Weather Service Modernization (GAO/AIMD-94-28, Mar. 11, 1994).

Information Security

Attacks on computer systems are an increasing threat to our national welfare. Many federal operations that rely on computer networks are attractive targets for individuals or organizations with malicious intentions. Such operations include law enforcement, import entry processing, taxpayer accounts, various financial transactions, payroll, defense operational plans, electronic benefit payments, and electronically submitted Medicare claims.

System interconnectivity, combined with poor security management, is putting billions of dollars worth of federal assets at risk of loss and vast amounts of sensitive data at risk of unauthorized disclosure. In addition, the increasing reliance on networked systems and electronic records has elevated concerns that critical federal operations are vulnerable to serious disruption. Although such disruption could be precipitated by natural disasters or accidents, there is evidence that some organizations are developing strategies and tools for conducting premeditated attacks on information systems.

Despite their sensitivity and criticality, federal systems and data are not being adequately protected. Since June 1993, we

have issued over 30 reports describing serious information security weaknesses at major federal agencies. For example, in September 1996, we reported that during the previous 2 years, serious information security control weaknesses had been reported for 10 of the 15 largest federal agencies.

Several problems need to be addressed to help ensure that federal agencies adequately protect their systems and data. These include (1) insufficient awareness and understanding of information security risks among senior agency officials, (2) poorly designed and implemented security programs that do not adequately monitor controls or proactively address risk, and (3) a shortage of personnel with the training and technical expertise needed to manage security controls in today's sophisticated information technology environment.

In light of the increasing importance of information security, stronger central leadership from the Office of Management and Budget (OMB) is needed. As chair of the Chief Information Officer's Council, OMB should encourage council members to pursue information security as one of their top priorities and develop a strategic plan for

addressing the root causes of agency security problems. Such a plan could include (1) developing information on existing and emerging information security risks and (2) establishing a program for using interagency teams to review individual agency security programs and training.

Additional information on information security problems and progress can be found in a separate information management and technology report issued as part of this series (GAO/HR-97-9).

Key Contact

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Related GAO Products

Information Security: Opportunities for Improved OMB Oversight of Agency Practices (GAO/AIMD-96-110, Sept. 24, 1996).

Information Security: Computer Attacks at Department of Defense Pose Increasing Risks (GAO/AIMD-96-84, May 22, 1996).

Security Weaknesses at IRS' Cyberfile Data Center (GAO/AIMD-96-85R, May 9, 1996).

Department of Energy: Procedures Lacking To Protect Computerized Data (GAO/AIMD-95-118, June 5, 1995).

Information Superhighway: An Overview of Technology Challenges (GAO/AIMD-95-23, Jan. 23, 1995).

HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD-94-34, Apr. 14, 1994).

IRS Information Systems: Weaknesses Increase Risk of Fraud and Impair Reliability of Management Information (GAO/AIMD-93-34, Sept. 22, 1993).

The Year 2000 Problem

At 12:01 on New Year's morning of the year 2000, many computer systems could either fail to run or malfunction—thereby producing inaccurate results—simply because the equipment and software were not designed to accommodate the change of date to the new millennium. For the past several decades, computer systems have typically used two digits to represent the year. With this abbreviated format, however, the year 2000 is indistinguishable from 1900, 2001 from 1901, and so on. As a result of this ambiguity, computer systems that use dates for calculations, comparisons, or sorting may generate incorrect results when working with years after 1999.

Unless this problem is resolved ahead of time, widespread operational and financial impacts could affect federal, state, and local governments; foreign governments; and private sector organizations worldwide. Serious problems could potentially occur at the federal level, given the agencies' dependence on computer systems in areas such as tax processing, benefit payments, and loan management, to say nothing of major operational systems.

Date-related problems have been manifesting themselves for some years, and

more problems are beginning to appear as the new century approaches. Resolving this issue will involve extensive, resource-intensive efforts due to the large scale of many federal systems and the numerous dependencies and interactions they often have with the systems of private-sector organizations and state agencies.

To complicate matters further, many government computer systems were originally designed and developed 20 to 25 years ago, are poorly documented, and use a wide variety of computer languages—many of which are old or obsolete. The systems consist of tens or hundreds of computer programs, each with thousands, tens of thousands, or even millions of lines of code which must be examined for date problems. With the end of the decade fast approaching, agencies must immediately assess their Year 2000 risk exposure and plan and budget for achieving Year 2000 compliance for all of their mission-critical systems. They will also need to develop contingency plans for those systems that they are unable to change in time.

In 1995, the Office of Management and Budget formed an interagency working

group on the Year 2000 issue, which is formulating a strategy and timetable for dealing with the problem. We will be working with the Congress and the executive branch to monitor the progress being made and identify specific recommendations for resolving the Year 2000 problem. We are also developing a set of audit templates for use by the audit community and agencies to identify their risk areas.

Additional information on the Year 2000 problem can be found in a separate information management and technology report issued as part of this series (GAO/HR-97-9).

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Related GAO Products

None

Medicare

In fiscal year 1996, federal spending for Medicare was $197 billion. Program expenditures have been growing at about 9 percent per year. While growth has moderated somewhat during the last 2 years, many view even the lower growth rates as unsustainable. Moreover, the trust fund that pays for hospital and other institutional services is projected to be depleted within 5 years. The Congress and the President have been seeking to introduce changes to Medicare to help control program costs. At the same time, the Congress is concerned that significant amounts of these costs are lost to fraudulent and wasteful claims.

Although no one can claim with precision how much Medicare loses each year, our work suggests that by reducing unnecessary or inappropriate payments, the federal government could realize large savings and help dampen the growth in Medicare costs. The hidden nature of improper billing and health care crimes precludes a rigorously quantified estimate of expenditures attributable to fraud and abuse. Estimates ranging from 3 to 10 percent have been cited for health expenditures nationwide, so applying this range to Medicare suggests that losses to fraud and abuse in fiscal year 1996

could have been from $6 billion to as much as $20 billion.

The Health Care Financing Administration (HCFA), which runs the Medicare program, has begun to acquire a new claims processing system, the Medicare Transaction System (MTS), to provide, among other things, better protection from fraud and abuse. In the past, we have reported on risks associated with this project, including a plan to implement the system in a single stage, rather than incrementally; difficulty in defining requirements; inadequate investment analysis; and significant schedule problems. HCFA has responded to these concerns by changing its single-stage approach to one under which the system will be implemented incrementally, and is working to resolve other reported problems. We plan to monitor these efforts.

In 1992 and again in 1995, GAO reported on Medicare as one of several government programs highly vulnerable to waste, fraud, abuse, and mismanagement.[1] Since the first report in the series, HCFA has made some regulatory and administrative changes aimed at curbing fraudulent and unnecessary

[1]High-Risk Series: Medicare Claims (GAO/HR-93-6, Dec. 1992) and High-Risk Series: Medicare Claims (GAO/HR-95-8, Feb. 1995).

payments. However, in recent years, sizable cuts in the budget for program safeguards, where most of the funding for the fight against abusive billing is centered, have diminished efforts to thwart improper billing practices.

Most Medicare services are provided through the fee-for-service sector, where any qualified provider can bill the program for each covered service rendered. In recent years, greater numbers of Medicare beneficiaries have enrolled in health maintenance organizations (HMO) to receive covered services. The most recent figures show, however, that almost 90 percent of beneficiaries remain under fee-for-service. Problems in funding program safeguards and HCFA's limited oversight of contractors continue to contribute to fee-for-service program losses. While HCFA expects a major system acquisition project to reduce certain weaknesses, the project itself has several risks that may keep HCFA from attaining its goals. In addition, the managed care program suffers from excessive payment rates to HMOs and weak HCFA oversight of the HMOs it contracts with. These flaws leave beneficiaries without information essential to guide their HMO selection and without

assurance that HMOs are adequately screened and disciplined for unacceptable care.

Since GAO's last high-risk report in 1995, the government has made important strides in its efforts to protect Medicare from exploitation. Recent legislation—the Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191), popularly known as the Kassebaum-Kennedy Act—increases funding for program safeguards, although per-claim expenditures will remain below the level of 1989 after adjusting for inflation. Nevertheless, we expect that the increase, if properly applied, can significantly improve antifraud and antiabuse efforts. In addition, HCFA anticipates that it will gain enhanced oversight capacity and reduced administrative costs when the next-generation claims processing system—the Medicare Transaction System—is fully implemented, which HCFA expects to occur after the year 2000. Further, the Department of Health and Human Services Inspector General and other federal and state agencies have banded together to fight fraud in five states, in an effort called Operation Restore Trust. After the first year of operation, the effort yielded more than $40 million in recoveries of payments for claims that were not allowed under Medicare

rules, as well as convictions for fraud, impositions of civil monetary penalties, and the exclusion of providers from the program.

Progress is also being made in addressing program management issues. For example, the Health Insurance Portability and Accountability Act gives additional flexibility to HCFA to contract with firms specializing in utilization reviews and makes the penalties for Medicare fraud more severe. HCFA is also improving its credentialing process for Medicare providers and is currently evaluating commercially available software for its potential to screen out some types of inappropriate claims. Additionally, the new Health Insurance Portability legislation and several planned consumer information efforts offer the potential for improved HCFA oversight of HMOs.

Many of Medicare's vulnerabilities are inherent in its size and mission, making the government's second largest social program a perpetually attractive target for exploitation. That wrongdoers continue to find ways to dodge safeguards illustrates the dynamic nature of fraud and abuse and the need for constant vigilance and increasingly sophisticated ways to protect against gaming the system. Judicious changes in Medicare's

day-to-day operations entailing HCFA's improved oversight and leadership, its appropriate application of new antifraud and antiabuse funds, and the mitigation of MTS acquisition risks are necessary ingredients to reduce substantial future losses. Moreover, as Medicare's managed care enrollment grows, HCFA must ensure that payments to HMOs better reflect the cost of beneficiaries' care, that beneficiaries receive sufficient information about HMOs to make informed choices, and that the agency's expanded authority to enforce HMO compliance with federal standards is used. To adequately safeguard the Medicare program, HCFA needs to meet these important challenges promptly.

Additional information on Medicare claims fraud and abuse problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-10).

Key Contact

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Related GAO Products

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Medicare: Private Payer Strategies Suggest Options to Reduce Rapid Spending Growth (GAO/T-HEHS-96-138, Apr. 30, 1996).

Medicare: Home Health Utilization Expands While Program Controls Deteriorate (GAO/HEHS-96-16, Mar. 27, 1996).

Medicare: Millions Can Be Saved by Screening Claims for Overused Services (GAO/HEHS-96-49, Jan. 30, 1996).

Fraud and Abuse: Providers Target Medicare Patients in Nursing Facilities (GAO/HEHS-96-18, Jan. 24, 1996).

Medicare Transaction System: Strengthened Management and Sound Development Approach Critical to Success (GAO/T-AIMD-96-12, Nov. 16, 1995).

Medicare Managed Care: Growing Enrollment Adds Urgency to Fixing HMO Payment Problem (GAO/HEHS-96-21, Nov. 8, 1995).

Medicare: Increased HMO Oversight Could Improve Quality and Access to Care
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(GAO/HR-95-8, Feb. 1995).

Supplemental Security Income

The Social Security Administration (SSA) administers the Supplemental Security Income (SSI) program, which pays cash benefits to the low-income aged, blind, and disabled. Since its inception in 1974, the number of individuals receiving SSI cash benefits has grown significantly. During the first 10 months of 1996, about 6.6 million SSI beneficiaries received about $22 billion in federal benefits and $3 billion in state supplemental payments. As the program has grown in both size and complexity, criticisms have been raised regarding SSA's ability to effectively manage SSI workloads and the program's susceptibility to fraud, waste, abuse, and mismanagement. The SSI program has been adversely impacted by internal control weaknesses, vague and complex policies, and insufficient management attention.

Previous GAO reviews of the SSI program have highlighted several long-standing problem areas: (1) determining initial and continuing financial eligibility for beneficiaries, (2) determining disability eligibility and performing continuing disability reviews, and (3) inadequate return-to-work assistance for recipients who may be assimilated back into the workforce.

In determining financial eligibility, SSA relies heavily on program beneficiaries to report information that affects their benefits levels, such as incarceration and changes in resources or income. This reliance on self-reporting significantly affects the agency's ability to control overpayments. For example, in August 1996, we reported that about 3,000 current and former prisoners in 13 county and local jail systems had been erroneously paid $5 million in SSI benefits, primarily because SSA lacked timely and complete information. Program overpayments have grown to nearly $1 billion per year, which is about 5 percent of total benefit payments.

Determining whether a claimant's impairment qualifies him or her for disability benefits is also a significant problem in the SSI program, particularly for non-English-speaking applicants and individuals with mental impairments, drug and alcohol addictions, and other hard to diagnose conditions. For example, translators have assisted immigrants unable to speak English to fraudulently obtain benefits by coaching them on which medical symptoms to claim and providing false information on their medical conditions and family history. SSA's ability to ensure

reasonable consistency in administering the program for children with behavioral and learning disorders has also been limited by the subjective nature of certain disability criteria.

SSA's lengthy and complex processes for determining disability often result in inconsistent and untimely decisions. In August 1994, we reported that applicants for SSI benefits wait 94 days on average for an initial decision, with an additional 373-day wait for appealed decisions. Moreover, SSA has a poor record of controlling program expenditures by reviewing recipients to ensure they remain eligible for benefits and referring individuals to vocational and rehabilitation services so they can return to the workforce and leave the SSI rolls. These problems have compromised the integrity of the disability program and reinforced public perceptions that SSA pays SSI benefits to too many people for too long.

To address SSI program problems, SSA has initiated a major redesign of the disability claims and appeals process, which will be implemented over the next several years. In addition, the Congress recently passed legislation to tighten eligibility criteria for children and immigrants, remove drug

addicts and alcoholics from the SSI rolls, and strengthen existing laws aimed at preventing SSI payments to individuals in correctional institutions. The legislation also requires SSA to conduct more reviews of SSI recipients to ensure that they remain eligible for benefits. It is too early to determine how these changes will affect the SSI program's vulnerability to inappropriate expenditures.

The magnitude of the SSI program and its demonstrated vulnerability to fraud, waste, abuse, and mismanagement call for decisive management action to address long-standing problems. Redesign of the disability claims process must remain an agency priority, and SSA must also establish effective program policy, management accountability, and internal controls to protect taxpayer dollars and assure timely and accurate decisions for SSI claimants. The selection of a new Commissioner will provide an opportunity for renewed agency focus on management of the SSI program and ensuring the future viability and integrity of the program.

Key Contact

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Related GAO Products

SSA Disability Redesign: Focus Needed on Initiatives Most Crucial to Reducing Costs and Time (GAO/HEHS-97-20, Dec. 20, 1996).

Social Security Disability: Improvements Needed to Continuing Disability Review Process (GAO/HEHS-97-1, Oct. 16, 1996).

Supplemental Security Income: SSA Efforts Fall Short in Correcting Erroneous Payments to Prisoners (GAO/HEHS-96-152, Aug. 30, 1996).

Supplemental Security Income: Administrative and Program Savings Possible by Directly Accessing State Data (GAO/HEHS-96-163, Aug. 29, 1996).

Supplemental Security Income: Some Recipients Transfer Valuable Resources to Qualify for Benefits (GAO/HEHS-96-79, Apr. 30, 1996).

Pass Program: SSA Work Incentive for Disabled Beneficiaries Poorly Managed (GAO/HEHS-96-51, Feb. 28, 1996)

Supplemental Security Income: Disability Program Vulnerable to Applicant Fraud When Middlemen Are Used (GAO/HEHS-95-116, Aug. 31, 1995).

Social Security: New Functional Assessments for Children Raise Eligibility Questions (GAO/HEHS-95-66, Mar. 10, 1995).

Farm Loan Programs

The U.S. Department of Agriculture's (USDA) farm loan programs are intended to provide temporary financial assistance to farmers and ranchers who are unable to obtain commercial credit at reasonable rates and terms.[1] In operating the farm loan programs, USDA faces the conflicting tasks of providing temporary credit to high-risk borrowers so that they can stay in farming until they are able to secure commercial credit and of ensuring that the taxpayers' investment is protected. We reported on the federal government's exposure to financial loss in two earlier reports in GAO's high-risk series.

In December 1992, we highlighted the poor financial condition of USDA's farm loan portfolio. We pointed out that even after forgiving or writing off billions of dollars of unpaid debt, much of the portfolio continued to be held by delinquent borrowers. Furthermore, we reported that USDA had become a permanent, rather than a temporary, source of credit for many borrowers. We identified three factors contributing to these problems: (1) field office lending officials were not always implementing lending and servicing standards designed to safeguard federal

[1]Within USDA, farm loans are administered by the Farm Service Agency; prior to the Department's October 1994 reorganization, the loans were administered by the Farmers Home Administration.

financial interests, (2) some of the loan-making, loan-servicing, and property management policies were fundamentally weak and increased the government's vulnerability to loss, and (3) the Congress had not provided clear direction on the basic purposes of the farm loan programs.

In our February 1995 high-risk series, we noted that some progress had been made in addressing two causes of the loan programs' problems. First, USDA had improved compliance with certain lending and servicing standards by increasing the training of its field officials. Second, the Congress had clarified certain aspects of the Department's basic lending mission by requiring it to focus on assisting beginning farmers. However, we also reported that no actions had been taken to strengthen weak loan and property management policies and that the Congress needed to further clarify the agency's role.

Since our February 1995 report, the Congress has enacted legislation that, if implemented properly, should significantly reduce the financial risks associated with the farm lending programs. Specifically, Title VI of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127,

Apr. 4, 1996) made fundamental changes to the programs' loan-making, loan-servicing, and property management policies. The changes included

- prohibiting delinquent borrowers from obtaining additional direct farm operating loans,
- generally prohibiting borrowers who cause USDA to incur loan losses from obtaining additional direct or guaranteed farm loans, except annual operating loans,
- limiting the number of times delinquent borrowers can receive debt forgiveness, and
- requiring certain delinquent borrowers to pay a portion of the interest due to USDA as a condition for having the terms of their loans rewritten.

In addition to substantially strengthening lending and property management policies, the FAIR Act provided direction for many other aspects of USDA's basic lending mission. For example, it emphasized that farm loan assistance is temporary and, consistent with that policy, promoted borrowers' graduation from direct loans to commercial loans guaranteed by the federal government. In addition, the act further reinforced the importance that the Congress placed on using the lending programs to

assist beginning farmers and ranchers over other groups of potential beneficiaries.

Overall, the extensive reforms mandated by the FAIR Act, combined with USDA's actions to improve compliance with program standards, should reduce the farm lending programs' vulnerability to loss. However, USDA is still in the process of implementing the mandated reforms, and their impact on the loan portfolio's financial condition will not be known for some time. During fiscal year 1997, we plan to monitor USDA's implementation of these reforms and reevaluate whether the farm loan programs should be removed from the list of high-risk areas.

Key Contact

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Related GAO Products

Farm Service Agency: Update on the Farm Loan Portfolio (GAO/RCED-97-35, Jan. 3, 1997).

Emergency Disaster Farm Loans: Government's Financial Risk Could Be Reduced (GAO/RCED-96-80, Mar. 29, 1996).

Consolidated Farm Service Agency: Update on the Farm Loan Portfolio (GAO/RCED-95-223FS, July 14, 1995).

High-Risk Series: Farm Loan Programs (GAO/HR-95-9, Feb. 1995).

Farmers Home Administration: The Guaranteed Farm Loan Program Could Be Managed More Effectively (GAO/RCED-95-9, Nov. 16, 1994).

Debt Settlements: FmHA Can Do More to Collect on Loans and Avoid Losses (GAO/RCED-95-11, Oct. 18, 1994).

Farmers Home Administration: Billions of Dollars in Farm Loans Are at Risk (GAO/RCED-92-86, Apr. 3, 1992).

Student Financial Aid

Although the Department of Education has shown a commitment to improving its oversight and management of the student aid programs, we believe the financial risk to U.S. taxpayers remains substantial. The procedural and structural program elements that are the root causes of the problems remain. Some of these arose from the statutory design of the programs and will remain unless changed through congressional action. Although the Department can mitigate some of these problems through more effective oversight and management, many of its initiatives, discussed in our 1995 report, have not been fully implemented. Progress toward their full implementation has been mixed.

The student aid programs employ complex and cumbersome processes with many participants. The major ones—the Federal Family Education Loan Program (FFELP), Ford Direct Loan Program (FDLP), and Pell grants—have their own procedures and set of participants. Overseeing these processes clearly presents a management challenge to the Department. Moreover, the introduction of FDLP (which accounted for about 33 percent of loans in 1995-96) has added a new dimension of complexity. Although the administration planned for FDLP to replace

FFELP, the Congress has allowed both programs to operate concurrently for the time being.

The programs' structural flaws remain. To maximize access to aid funds, the Higher Education Act placed nearly all the financial risk of loan defaults on the federal government. Since 1980, as the number of borrowers increased, so have the number of defaults. In addition, the number of students coming from lower income families and attending proprietary trade and other nontraditional schools has increased, increasing the risk of programwide defaults. How FDLP may impact these known problems is unclear. Loan repayment and default histories are just beginning to be developed as the first FDLP borrowers complete their education and begin repaying their loans.

Management shortcomings are another major problem. Actions in four areas in particular are critical for minimizing waste, fraud, abuse, and mismanagement and require continuing attention and improvement by the Department: (1) gatekeeping, (2) program administration, (3) information resources management, and (4) financial management. In some areas, such as gatekeeping, the Department has

improved some of its practices. In others, many past problems remain. For example, Department initiatives to improve information resources management have not fully succeeded in improving data quality and systems integration. This situation also affects the programs' internal controls, as follows:

- Poor quality and unreliable FFELP student loan data remain in the Department's systems. As a result, the Department cannot obtain complete, accurate, and reliable FFELP data necessary to report on its financial position.
- Inaccurate loan data are being loaded in the National Student Loan Data System, the Department's principal student aid database intended to help resolve data quality problems.

On the other hand, the Department has generally been responsive to addressing problems in its student aid programs, and many of those actions appear to be achieving some results. For example, FFELP default claim payments declined slightly from $2.7 billion in fiscal year 1992 to $2.5 billion in fiscal year 1995.

The Department has also begun planning a major reengineering effort that it expects will resolve these problems in the next several years. This effort, which is known as Easy Access for Students and Institutions, or Project EASI, is envisioned as a student-based, integrated data system through which all management and control functions will be conducted.

Additional information on student financial aid problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-11).

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Related GAO Products

Department of Education: Status of Actions to Improve the Management of Student Financial Aid (GAO/HEHS-96-143, July 12, 1996).

Higher Education: Ensuring Quality Education From Proprietary Institutions (GAO/T-HEHS-96-158, June 6, 1996).

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1994 and 1993 (GAO/AIMD-96-22, Feb. 26, 1996).

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/HEHS-95-89, July 11, 1995).

High-Risk Series: Student Financial Aid (GAO/HR-95-10, Feb. 1995).

Student Loans: Millions Loaned Inappropriately to U.S. Nationals at Foreign Medical Schools (GAO/HEHS-94-28, Jan. 21, 1994).

Department of Housing and Urban Development

The diversity of the Department of Housing and Urban Development's (HUD) missions has resulted in a Department that is intricately woven into the nation's financial and social framework and that interacts with a number of diverse constituencies, such as public housing authorities, private property owners, and nonprofit groups. HUD also spends a significant amount of tax dollars in carrying out its missions. The discretionary budget outlays for HUD's programs were estimated at close to $31.8 billion in fiscal year 1995, over three-fourths of which was for public and assisted housing programs. HUD is also one of the nation's largest financial institutions, with significant commitments, obligations, and exposure. It is responsible for managing more than $400 billion worth of insured mortgages, $485 billion in outstanding mortgage-backed securities, and about $180 billion in prior years' budget authority for which it has future financial commitments.

Our February 1995 high-risk report discussed four long-standing Departmentwide management deficiencies—weak internal controls, inadequate information and financial management systems, ineffective organizational structure, and insufficient mix

of staff with proper skills—that first led us to designate HUD as a high-risk area in January 1994. While HUD has subsequently formulated approaches and initiated actions to address these deficiencies, its efforts are far from reaching fruition, and HUD's programs continue to pose a high risk to the government in terms of their vulnerability to waste, fraud, abuse, and mismanagement.

In the area of internal controls, HUD has made limited progress, but major problems persist. Over the past 2 years, auditors have been unable to render opinions on HUD's financial statements because of weaknesses involving internal controls and financial systems. HUD's remaining internal control weaknesses are significant and long-standing and, despite its importance as a management control tool, monitoring of program participants continues to be a problem area for HUD. Despite HUD's efforts to improve information and financial management systems, some of the improvement projects that involve HUD's major financial and information systems will not be completed before the year 2000. Furthermore, many of HUD's systems do not comply with the Federal Managers' Financial Integrity Act and therefore cannot be relied upon to

provide timely, accurate, and reliable information and reports to management.

HUD has taken significant steps to improve its organizational structure by eliminating its regional office structure, consolidating many program operations and functions into service centers, and better balancing service delivery needs. However, HUD has not yet evaluated the effects of its actions. HUD plans additional efforts to reorganize and to reduce its total staff by 29 percent (from about 10,500 to 7,500) by the year 2000. HUD has made progress in addressing problems with staff members' skills and with resource management. In spite of the progress, the Department needs to increase the number of staff receiving training, perform a needs assessment process to plan future training, and develop sufficient training in certain areas, such as technical and interpersonal skills.

HUD deserves credit for its continued emphasis on, and progress toward, addressing its long-standing management deficiencies. However, HUD's programs will remain at high risk to fraud, waste, abuse, and mismanagement until the agency completes more of its planned corrective actions and until the administration and the

Congress agree on and implement a restructuring strategy that focuses HUD's mission and consolidates, reengineers, or reduces HUD's programs so as to bring the Department's management responsibilities in line with its management capacity. In reaching agreement, the parties will need to consider the inherent trade-offs involved in fulfilling the needs of those seeking HUD's assistance with other demands on the total federal budget.

Additional information on HUD problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-12).

Key Contact

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Department of Energy Contract Management

The Department of Energy (DOE)—the largest civilian contracting agency in the federal government—contracted out about 91 percent of its $19.2 billion in fiscal year 1995 obligations. Contractors who manage and operate DOE-owned facilities generally fulfill such DOE missions as maintaining the nation's weapons complex and cleaning up environmental contamination from past weapons production.

We designated DOE contracting in 1990 as a high-risk area vulnerable to waste, fraud, abuse, and mismanagement because DOE's missions rely heavily on contractors and DOE has a history of weak contractor oversight. Special contracting arrangements initiated for the Manhattan Project's development of the atomic bomb during World War II continued decades later. DOE continued to enter into contracts in which competition was the exception, reimbursement of virtually any contractor cost was the practice, and lax contractor oversight was the norm.

We issued a series of reports and testimonies documenting DOE's contracting practices and problems and identifying some of the costly effects. These products have contributed to the Congress' budget deliberations and

provided an impetus for DOE to reform its contracting.

However, changing the way DOE does business has not come easily or quickly. DOE has taken various actions in the past to improve its contracting, and a recent contract reform effort that has received high priority and visibility appears promising. DOE's Contract Reform Team, in a February 1994 report, recommended nearly 50 actions to fundamentally change DOE's contracting practices.

In response, DOE has made progress in developing an array of policies and procedures to support the recommendations. For example, it (1) published a regulation adopting a standard of full and open competition in the award of its management and operating contracts, (2) included in its contracts incentives to improve performance and control costs, and (3) initiated a new approach to shift to the contractor much of the risk and responsibility for some environmental cleanup work.

The proposed reforms are unprecedented in scope within DOE and provide the framework for improved contracting. However, the test

of success will occur as DOE implements, monitors, and adjusts to this totally new way of doing business. Our recent review of DOE's reforms revealed problems in early implementation. For example, most of DOE's contract decisions continue to be noncompetitive and contract goals are not always linked to those of DOE.

Given the magnitude of these reforms, implementation problems are to be expected. However, they must be identified and corrected for contract reform to succeed. Therefore, DOE's continuance of high-level monitoring and oversight will be needed to further identify problems, standardize the best practices, and make needed corrections as DOE makes its way through these changes.

Additional information on DOE's contracting problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-13).

Key Contact

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Related GAO Products

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NASA Contract Management

The National Aeronautics and Space Administration (NASA) spends about 90 percent of its budget on contracts with businesses and other organizations. NASA's procurement budget is one of the largest of all federal civilian agencies, totalling about $13 billion annually in recent years. NASA first identified its contract management as vulnerable to waste and mismanagement in the late 1980s. Since then, it has grappled with a variety of contract management problems caused by (1) planning procurements based on unrealistic funding expectations, (2) the lack of adequate systems and information with which to monitor contractors' cost, schedule, and performance activities, and (3) field centers' failure to fully comply with contract management requirements.

In the early 1990s, we reported that NASA's 5-year program plan was about $20 billion higher than its likely budgets. To adjust programs to budgets, NASA's projects and programs often must be slowed down, thus extending their schedules and increasing total contract costs. By the end of 1994, NASA had eliminated almost all of the $20 billion gap between its program plan and likely budgets that had existed just 2 years earlier, in large part by terminating, slowing the

pace, or reducing the capability of ongoing projects. However, in early 1995, the executive branch directed NASA to cut its future years' budgets by another $5 billion. This gap is much smaller than the previous one, and NASA management hopes to absorb as much of it as possible by reducing the agency's infrastructure, including facilities, personnel, and support contractors. Based on our observations of NASA's current reduction efforts, however, we have reported that NASA may not be able to close this latest "budget gap" solely through infrastructure reductions. Thus, there is still some potential for a continuation of programmatic cutbacks and slowdowns that extend schedules and increase contract costs.

NASA has made considerable progress in developing ways to better influence contractors' performance and to improve oversight of field centers' procurement activities. For example, NASA

- established a process for collecting cost, schedule, and technical information for all major NASA contracts to assist management in agencywide tracking of contractor performance;

- restructured its policy on award fees to emphasize contract cost control and the performance of contractors' end products;
- issued guidance on providing property to contractors to comply with the Federal Acquisition Regulation, which severely restricts the amount of general purpose equipment that agencies should provide; and
- improved the management of contract audit services, including expanding the use of such services in managing and reporting on contract property.

NASA headquarters has developed and implemented a broad range of metrics and reports to help it oversee the field centers' procurement activities and to measure the effectiveness of its contract management improvement efforts. The metrics show progress and improvement in a number of targeted areas. For example, NASA lowered the value of contract changes for which prices had not yet been negotiated from a peak of $6.6 billion in December 1991 to less than $500 million in September 1996. Also, the number of unresolved audits by the Defense Contract Audit Agency was reduced to 13 in June 1996 from 92 in 1994. Moreover, as of April 1, 1995, all contracting officers' technical representatives had received or were scheduled to receive mandatory

training on their duties, responsibilities, and authority. Finally, more than 600 NASA personnel received procurement-related training from fiscal year 1993 through March 1996.

Despite NASA's progress, our most recent work identified barriers to relying solely on infrastructure reductions to close the budget gap, additional problems in contract management, and opportunities for improvement in procurement oversight. Barriers to implementing infrastructure cost-reduction opportunities include parochial concerns that hinder NASA's efforts to close facilities, relocate activities, and consolidate operations. In some cases, NASA heightened these concerns by performing questionable cost-reduction studies and substantially overstating the cost-reduction potential of certain actions.

In July 1996, we reported on problems in controlling costs in the International Space Station Program, which accounts for over 10 percent of NASA's annual procurement funding. Although NASA's prime development contractor and its major subcontractors had implemented performance measurement systems to monitor cost and schedule status, procedural errors and other problems in

implementing the systems affected the accuracy of reported information.

In recent years, NASA field centers have assumed increasing responsibility for overseeing their own procurement activities. Earlier in 1996, we indicated that NASA could improve the self-assessment process its field centers use to periodically evaluate their procurement functions. We specifically noted that the quality, consistency, and usefulness of such assessments could be improved if centers had additional guidance and information in a variety of areas, including self-assessment documentation and follow-up on the correction of problems. NASA officials noted that they would consider our observations on improving self-assessments as they continue to refine the process.

The effectiveness of the self-assessment process is critical in light of recent and planned personnel reductions. NASA faces the formidable challenge of operating and overseeing procurement activities under heavy personnel reduction pressures. While NASA headquarters and field center procurement officials believe that recent efforts to improve and streamline the procurement process will help them cope

with staff reductions, they are concerned about the long-term implications of planned and potential cutbacks. For example, headquarters officials are concerned that they may not have adequate personnel to effectively manage contracting and subcontracting activities. We have not assessed the potential implications of reduced procurement staffing.

Periodic problems will inevitably occur in a procurement activity the size of NASA's. The agency's objective must be to identify these problems early so they can be evaluated, monitored, and corrected before they become systemic. NASA has demonstrated that it can take timely action once a potential problem has surfaced. We are encouraged by the agency's efforts to evaluate identified problems and to develop, implement, and monitor needed improvements. However, our initial look at NASA's approach to periodically assessing its management of procurement functions indicated that the process could benefit from additional agencywide guidance to help ensure consistent and thorough coverage of the procurement cycle. We are continuing our review of NASA's ability to adequately assess its procurement activities, and we will report on the results of our work later this year. We

are also continuing our oversight of NASA's actions to improve cost reporting on the International Space Station Program and NASA's continuing efforts to downsize its infrastructure, especially its facilities.

Key Contact

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Related GAO Products

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Superfund Program Management

The Environmental Protection Agency's (EPA) Superfund program began in 1980 as a relatively short-term project to clean up abandoned hazardous waste sites. At that time, the country's hazardous waste problems were thought to be limited. Since then, thousands of waste sites have been discovered. Furthermore, cleaning up these sites—many of which are owned by the federal government—has proved to be far more complicated and costly than anticipated. Recent estimates show that cleaning up these sites could amount to over $300 billion in federal costs and many billions more in private expenditures.

Under the Superfund law, EPA can compel the private parties responsible for abandoned or inactive hazardous waste sites to clean them up, or it can conduct the cleanup and demand reimbursement of its costs from the responsible parties. Currently, EPA has negotiated with private parties to do over 70 percent of the cleanups. To pay for EPA's cleanups, the agency draws on a legislatively established trust fund that is primarily financed by a tax on crude oil and certain chemicals and by an

environmental tax on corporations.[1] Federal agencies generally use their annual appropriations to finance cleanups of the facilities under their jurisdiction.

However, as we previously reported, certain management problems have put this investment at risk.[2] First, EPA and other federal agencies have not consistently allocated their cleanup resources to reduce the most significant threats to human health and the environment. Second, although EPA is responsible for pursuing reimbursement when it funds a cleanup, the agency has recovered from responsible parties only a fraction of the moneys that it has spent. Finally, while about half of the Superfund program's budget annually goes to contractors, EPA has had long-standing problems with controlling the contractors' costs.

Since our 1995 report, EPA and other federal agencies have taken steps toward addressing these areas. For instance, EPA has begun

[1]In December 1995, the authority to collect these taxes expired and taxes are no longer being collected. However, as of September 1995, the trust fund had an unappropriated balance of $2.9 billion. As a result, it could still be used to finance the Superfund program.

[2]High-Risk Series: Superfund Program Management (GAO/HR-93-10, Dec. 1992) and High-Risk Series: Superfund Program Management (GAO/HR-95-12, Feb. 1995).

using a risk-based process to set priorities and allocate some of its fiscal year 1996 cleanup funds. Other federal agencies have made uneven progress in (1) taking the first step toward setting priorities—that is, developing a complete inventory of the waste sites that need cleanup—and (2) implementing systems to rank sites for cleanup according to risk.

Second, EPA has made some improvements in its cost recovery program, although it still recovers only a small percentage of its costs when it does the cleanup work. While some costs are not expected to be recovered, EPA's historically low recovery rate in part results from the agency's slow pace in revising its policy that limits the recovery of indirect program costs. EPA estimates that the value of these excluded costs has grown to $3.8 billion through fiscal year 1995—up from a value of $1.1 billion 3 years earlier.

Finally, while EPA has focused attention on strengthening its management of Superfund contracts, past problems still persist: (1) EPA's regions are still too dependent upon the contractors' own cost proposals to establish the price of cost-reimbursable work, (2) EPA continues to pay its cleanup contractors a high percentage of total

contract costs to cover administrative expenses rather than ensuring that the maximum amount of available moneys is going toward the actual cleanup work, and (3) little progress has been made in improving the timeliness of audits to verify the accuracy of billions of dollars in Superfund contract charges.

Thus, despite improvements, further actions are needed to safeguard the investment of hundreds of billions of dollars. EPA and other federal agencies need to expand their use of risk as a criterion to set cleanup priorities. Further, to help recover more of its program costs, EPA needs to move expeditiously to increase the amount of indirect program costs that are recoverable. EPA estimates show that planned changes could increase recoveries by as much as $500 million (of the $3.8 billion in excluded indirect costs). Finally, although EPA has been addressing the weaknesses in contract management, the agency needs to take such steps as better estimating the costs of contractors' work.

Additional information on Superfund problems and progress can be found in a separate report issued as part of this series (GAO/HR-97-14).

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2000 Decennial Census

The decennial census, the nation's most comprehensive statistical data-gathering program, is required by the Constitution. The results are critical for apportioning seats in the House of Representatives and are also used to (1) draw district boundaries within states, cities, and counties, (2) allocate billions of dollars in federal funding for numerous programs, (3) provide a baseline for comparative data collection and analysis for the ensuing decade, and (4) guide the plans and decisions of government, business, education, and health institutions in the multibillion dollar investments they make. Agreement is needed between the administration and the Congress on an approach that will both minimize risk of an unsatisfactory census and keep the cost of doing it within reasonable bounds.

Since 1970, the Census Bureau has used essentially the same methodology in conducting the decennial census. It developed an address list of the nation's housing units, mailed census forms to those households, and asked the residents to mail back the completed forms. Temporary census-takers, known as enumerators, were then hired by the hundreds of thousands to gather the required information from each nonresponding household.

Because the most accurate and cost-effective data have been provided voluntarily on mailed back census forms, the key to the success of the decennial census is public cooperation. Over the years, however, the public has become less and less willing to respond. The proliferation of surveys and solicitations in the mail, privacy concerns, changes in household makeup and stability, and suspicions about the uses to which government information is put have all played a hand in eroding voluntary cooperation. In addition, changes in the labor market have reduced the number of people available for temporary enumerator positions.

By 1990, these problems had mounted to the point where the most expensive census in history produced results that were less accurate than those of the preceding census. In part because enumerators had to visit about 35 percent of all housing units in the United States, costs rose 25 percent on a per-household, constant-dollar basis to $25. In large cities, more than 10 percent of the population was counted, after up to six failed visits, through minimal information provided by nonhousehold members and thus highly prone to error.

Even more important, we estimated that 9.7 million persons, or 3.9 percent of the population, were not counted at all in 1990, although this was partially offset in the net count by millions of persons who were improperly included. Furthermore, the net undercount was not equally distributed. According to the 1990 Post-Enumeration Survey, 4.99 percent of Hispanics were missed, and 4.57 percent of African-Americans, but only 0.68 percent of non-Hispanic whites.

On several occasions since 1992, we testified on the need for careful advance planning to avoid the risk of a very expensive and seriously flawed census in 2000. In 1992, the Bureau of the Census estimated that, without design changes, $4.8 billion in 1990 dollars would be needed to carry out the design that cost $2.6 billion in 1990. The Bureau responded by deciding to make changes to the census design with cost savings implications approaching or exceeding $1 billion. Several of these changes, such as streamlining the census questionnaires, a more aggressive outreach and promotion program, and greater use of the Postal Service to identify households, are aimed at stopping the downward trend in the response rate, but it is unclear whether these

efforts will promote public cooperation at the level needed for a successful census. In anticipation of the need to deal with an even larger nonresponse workload than in 1990, the Bureau has designed statistical sampling and estimation procedures that should be more accurate and cost-effective than visiting every nonresponding household.

The Constitution and court decisions clearly give the Congress authority to determine the manner in which the census will be taken. However, the Census Bureau has so far failed to demonstrate convincingly to the Congress exactly what effects sampling and estimation would have at different levels of geographical detail. As a result, the Congress could choose to preclude the Bureau from moving forward with its sampling plan.

At this time, despite congressional concerns over its proposed approach, the administration has done little to plan for the possibility that greater amounts of funding than now anticipated may be necessary to cover added personnel, facilities, and equipment costs if sampling and estimation are not used. Firm plans, careful tests, and detailed preparations need to be decided on very soon. The 2000 Census "dress rehearsal" is only about a year away. The

Bureau's 1997 funding request for census planning has been reduced 20 percent. With limited funds and a fast-approaching deadline, the available resources need to be focused on testing the census that will actually be carried out.

There is a high risk to the nation of an unsatisfactory census in 2000, and planning the census must have a higher priority than has been evident so far. The longer the delay in securing agreement over design and funding, the more difficult it will be to execute an effective census, and the more likely it will be that we will have spent billions of dollars and still have demonstrably inaccurate results. Given the dependence of many decisions affecting governments, businesses, and citizens on the results of the census, the country can ill afford an unsatisfactory census at the turn of the century, especially if it comes at a substantially higher cost than previous censuses.

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